

Audit Report



OUTSOURCING OF DEFENSE SUPPLY CENTER, COLUMBUS,
BUS AND TAXI SERVICE OPERATIONS

Report Number 99-132

April 13, 1999

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Acronyms

DFARS	Defense Federal Acquisition Regulation Supplement
DLA	Defense Logistics Agency
DSCC	Defense Supply Center, Columbus
FAR	Federal Acquisition Regulation
OMB	Office of Management and Budget
U.S.C.	United States Code



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

April 13, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
AND TECHNOLOGY
DIRECTOR, DEFENSE LOGISTICS AGENCY
COMMANDER, DEFENSE SUPPLY CENTER, COLUMBUS

SUBJECT: Audit Report on Outsourcing of Defense Supply Center, Columbus, Bus and
Taxi Service Operations (Report No. 99-132)

We are providing this report for information and use. This report is the second in a series on Defense agencies performance of commercial activities. The audit was conducted in response to allegations made to the Defense Hotline. We considered management comments on a draft of this report when preparing the final report.

The Defense Logistics Agency comments conformed to the requirements of DoD Directive 7650.3; therefore additional comments are not required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Garold E. Stephenson at (703) 604-9332 (DSN 664-9332) (gstephenson@dodig.osd.mil) or Mr. Benjamin A. Mehlman at (703) 604-9252 (DSN 664-9252) (bmehlman@dodig.osd.mil). See Appendix C for the report distribution. Audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-132

(Project No. 8CH-0008.01)

April 13, 1999

Outsourcing of Defense Supply Center, Columbus, Bus and Taxi Service Operations

Executive Summary

Introduction. We performed the audit in response to allegations to the Defense Hotline that the Defense Supply Center, Columbus, outsourcing study for bus and taxi service operations was based on incorrect methodology. The complainants also questioned whether Office of Management and Budget Circular No. A-76 procedures applied to the contracting out of the motor pool operations. The Defense Supply Center, Columbus, Office of Installation Services operates the motor pool with a staff of 12 full-time civilian employees, including 9 drivers who perform the taxi and shuttle bus service. This is the second report on Defense agencies and field activities commercial activities programs.

Objectives. The overall audit objective was to evaluate the reasonableness of in-house cost estimates for outsourcing studies initiated by the Defense agencies. The specific objective of this audit was to determine the merit of the allegations made to the Defense Hotline. We did not review the Defense Supply Center, Columbus, management control program because of the limited scope of the complaint.

Results. The audit substantiated the allegation that the Defense Supply Center, Columbus, outsourcing study for bus and taxi service operations was based on incorrect methodology. Installation Services officials did not comply with legal and policy requirements for outsourcing commercial activities, and created unnecessary disruption and distrust within the motor pool.

The audit also determined that the motor pool would qualify under Circular A-76 guidelines for a cost comparison study. Office of Management and Budget Circular A-76 guidelines do not allow a commercial activity exceeding 10 employees to be modified, reorganized, divided, or in any way changed for the sole purpose of circumventing the requirements of a cost comparison. Thus, a motor pool of 12 employees cannot be directly converted to contract without the performance of at least a simplified cost comparison, even if staff realignment to nine employees was planned.

Summary of Recommendations. We recommend that the Director, Defense Logistics Agency, publish a policy statement on obtaining installation services support at the Defense Supply Center, Columbus, and other field activities that delineates organizational responsibilities for performing cost comparison procedures and establishes processes to be followed for commercial activities using Office of Management and Budget Circular A-76 waiver or exception authority. We recommend that the Commander, Defense Supply Center, Columbus, require personnel in the Office of Installation Services who will lead or be assigned to sourcing study teams to attend training related to the development of performance work statements and the Office of

Management and Budget Circular A-76 cost comparison process. We also recommend that the Commander restudy the motor pool bus and taxi service operations in accordance with a study plan that complies with legal and policy requirements.

Management Comments. The Defense Logistics Agency agreed to publish a policy statement on obtaining installation services support that delineates organizational responsibilities for performing cost comparison procedures and establishes processes to be followed for commercial activities using the Office of Management and Budget Circular A-76. The Defense Logistics Agency also agreed to train sourcing study team personnel and to restudy the motor pool bus and taxi service operations in accordance with a study plan that complies with the Office of Management and Budget Circular A-76. See Part I for the complete discussion of management comments and Part III for the complete text of management comments.

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Background

We performed the audit in response to allegations to the Defense Hotline that Defense Supply Center, Columbus (DSCC), officials planned to contract out bus and taxi service operations based on incorrect methodology. The complainants also questioned whether Office of Management and Budget (OMB) Circular No. A-76 procedures applied to the contracting out of motor pool operations. This is the second report on Defense agencies and field activities commercial activities programs. The first report discussed the Defense Commissary Agency outsourcing program.

Defense Supply Center, Columbus. DSCC is one of three inventory control points operated by the Defense Logistics Agency (DLA). It manages about 1.9 million spare part items for 1,300 active weapons systems and a one-square-mile installation that houses nearly 6,000 Federal employees in 108 buildings. DSCC provides installation support services to 24 DoD and Federal tenant organizations, including the Defense Finance and Accounting Service Columbus Center, the Defense Megacenters Columbus, and the DLA Systems Design Center.

The DSCC Office of Installation Services operates the motor pool, which provides vehicle transportation support to organizations on the installation and to a nearby Defense Finance and Accounting Service Columbus Center facility. The Center has a staff of 12 full-time civilian employees, including 9 drivers who perform the taxi and shuttle bus services.

Guidance on Outsourcing Commercial Activities. OMB Circular No. A-76, "Performance of Commercial Activities," August 4, 1983, is the Government-wide policy for determining whether commercial activities should be contracted out or performed in-house. The OMB Circular No. A-76 Revised Supplemental Handbook, March 1996, (A-76 Handbook) provides detailed guidance on how and when cost comparison studies are to be performed and specifies which costs to include in the comparisons of in-house versus contractor cost proposals. DoD Directive 4100.15, "Commercial Activities Program," and DoD Instruction 4100.33, "Commercial Activities Program Procedures," implement the OMB Circular and the Revised Supplemental Handbook. DoD Instruction 4100.33 is codified at Title 32 Code of Federal Regulations Part 169a (32 C.F.R. 169a), "Office of the Secretary of Defense, Commercial Activity Program Procedures," July 1, 1998.

Guidance on Contracting Process and Procedures. The Federal Acquisition Regulation (FAR) provides Government-wide guidance on the process and procedures for contracting supplies and services, including commercial activities. Additional guidance on contracting procedures or requirements that pertain only to DoD is contained in the Defense Federal Acquisition Regulation Supplement (DFARS). Defense program officials should work closely with contracting officers to ensure compliance with FAR and DFARS requirements. FAR, part 12, "Acquisition of Commercial Items," requires that the contracting for commercial

activities include a planning phase with elements such as development of a performance work statement, market research and acquisition planning, development of the most efficient organization, development of the Government bid, and issuance of the solicitation. Market research, acquisition planning, and solicitations are influenced by Competition in Contracting Act requirements that contracting officers obtain competition from a number of sources. The contracting process must be accomplished correctly to avoid long-term negative effects.

DLA Strategy for Outsourcing Installation Support Services. On May 30, 1996, the DLA Deputy Director for Material Management directed the Commander, DSCC, to conduct an outsourcing business case analysis of installation support services. The analysis was conducted at Defense Supply Centers, Columbus, Ohio; and Richmond, Virginia; and Defense Depot Regions East (New Cumberland, Pennsylvania); and West (Tracy, California) to determine whether outsourcing would contribute to reengineering the installation support mission and achieve lower operating costs. The DSCC was to develop a single, coordinated strategy to obtain common installation services at the four locations that employed approximately 1,200 full-time equivalent personnel. Each organization would retain responsibility for executing outsourcing decisions. On June 20, 1997, DSCC officials briefed DLA officials that the strategy should be that each activity organization commander should evaluate data for the support functions and conduct "A-76 like competitions." These competitions would take less time to conduct than traditional A-76 competitions. Headquarters DLA did not accept or reject the proposed strategy. DLA officials stated that DSCC was only authorized to perform a business case analysis report to baseline potential reengineering of the installation support services.

Motor Pool Bus and Movement Study. The DSCC Office of Installation Services prepared a "Bus and Movement Study" report dated May 12, 1998. The report concluded that over a 3-year period, DSCC could recoup \$102,638 if bus and taxi service operations were contracted out. The purpose of the study was to determine the feasibility of contracting out:

- DSCC taxi service,
- Defense Finance Accounting Center taxi service, and
- shuttle bus services.

However, DSCC officials did not study the motor pool functions in order to identify the most efficient in-house staffing requirements. Officials used a March 19, 1998, price quote from Laidlaw Transit Services, Incorporated (Laidlaw), as the basis for estimating funds put to better use by contracting out.

Objectives

The overall audit objective was to evaluate the reasonableness of in-house cost estimates for outsourcing studies initiated by the Defense agencies. The specific objective for this audit report was to determine the merit of the allegations to the Defense Hotline. We did not review the DSCC management control program because of the limited scope of the complaint. See Appendix A for a discussion of the audit scope and methodology and a review of the management control program. See Appendix B for a discussion of the allegations and audit results.

Outsourcing of Bus and Taxi Services

The decision to contract out the bus and taxi service operations at DSCC does not comply with existing guidance. DSCC officials did not comply with guidance because they were not familiar with the legal and policy requirements for outsourcing commercial activities, and apparently misunderstood DLA management verbal directions not to engage in outsourcing actions until reengineering tasks had been completed. As a result, the officials' actions created unnecessary disruption within the motor pool.

Outsourcing Analysis Methodology

On May 29, 1998, the Chief of the DSCC Installation Operations and Program Division sent an e-mail to the Deputy Director and other senior managers that stated:

We have made the final decision to contract the bus and taxi service here on base. WEP (code for Motor Pool Branch) associates (employees) have been placed on the excess list.

To that end, we have a proposal for all services from Laidlaw we want to send to you for contract action. The services include the personnel and vehicles needed to support our transportation requirements. Woody has the information. I would suspect that the service contract would be easy to solicit and manage. The contractor would have his own dispatcher to serve as customer interface. Your part, as I see it, would be to develop the contract and manage the QC (quality control) to some extent.

Study Organization and Planning. The DSCC officials stated that their strategy and guidance was based on the May 30, 1996, directive to conduct an outsourcing business case analysis. The DSCC officials conducted the Bus and Movement Study in May 1998. The methodology involved the following elements.

- Determining in-house performance costs using current grades, salaries, benefits, and projected wage increases over a 3-year period. (The study assumed that vehicle costs would not play a major role in the estimates because the vans and buses would not require replacement during the performance period); and
- Requesting Laidlaw to provide a proposal for providing bus and taxi services. (Laidlaw was chosen because of a standing contract with the Central Ohio Transit Authority for the Columbus, Ohio, area).

Implementing Strategy and Legal Requirements

Implementing Strategy. DSCC did not develop a formal study plan that identified responsibilities and procedures for conducting the Bus and Movement Study or the "A-76 like competitions" proposed in the June 20, 1997, briefing charts. DSCC officials wanted the study and any contract award accomplished in less than 12 months.

Legal and Policy Requirements for Outsourcing Commercial Activities. The DSCC officials did not comply with existing guidance for contracting out commercial activities performed by in-house employees because they lacked an understanding and appreciation for the requirements.

Cost Comparison Criteria. The FY 1995 Defense Appropriations Act requires a cost comparison for any commercial activity function performed by more than 10 DoD civilian employees. The FY 1999 Defense Appropriations Act states that no funds shall be available to convert to contractor performance an activity or function performed by 10 DoD Civilian employees until a most efficient and cost-effective organization analysis is completed. However, Title 10, United States Code (U.S.C.) 2461, requires cost comparisons when a commercial activity function is performed by more than 20 DoD civilian employees. In addition, OMB Circular A-76 requires the conducting of a cost comparison for functions involving more than 10 employees. A commercial activity with 10 or fewer civilian employees may be cost compared, if desired. Title 10, U.S.C. 2462 and 2467, and the OMB Circular A-76 require that all costs are considered for a realistic cost comparison (including quality assurance, technical monitoring of the performance of the function, liability insurance, employee retirement and disability benefits, and other overhead costs). The OMB Circular A-76 Supplemental Handbook (OMB handbook) provides detailed guidance on preparing the cost comparison estimates. For direct contract conversions, the OMB Circular A-76 requires that competitive contracting requirements are followed. In addition, the contracting officer should determine that offers provide the required level of service at fair and reasonable prices. The cost comparisons in the Bus and Movement Study did not consider all costs (for example, contract administration and overhead costs) nor whether the in-house and contractor cost proposals were fair and realistic.

Study Team Composition. The OMB handbook states that the cost comparison study team "may include individuals with expertise in management analysis, position classification, work measurement, value engineering, industrial engineering, cost analysis, procurement and technical aspects of the activity under study." The DSCC Bus and Movement Study was performed by DSCC personnel who did not consult a contracting officer prior to soliciting formal proposals from Laidlaw. DSCC personnel also did not inform the employees that Laidlaw would receive a contract for bus and taxi service operations. DSCC base support contracting personnel were not aware of the Laidlaw contract proposals or that the Office of Installation Services was conducting an outsourcing study of the functions. Base support contracting personnel stated that they should have participated in or performed market analysis and requested the proposals. After the May 12, 1998, study, the Deputy Director of the Office of Installation Services directed his staff to "begin the contracting process with the intent to have a contract in place by January 1, 1999." The Deputy Director's statement, and the fact that only one contractor was solicited, are not consistent with the contracting

officer authority to solicit proposals, promote competition, and enter into binding contracts. However, as a result of the complaint to the DoD Hotline, action was suspended on contracting out the operations.

Study Process. The OMB handbook outlines the required actions for outsourcing commercial activities that involve cost comparisons and direct conversions. The direct conversion process from in-house employees to contract has fewer required actions than regular cost comparison studies. Supplemental Air Force guidance, "Outsourcing Guide for Contracting," June 1996, notes that both methods require an announcement of the conversion or study effort, development and completion of a performance work statement, development and completion of an acquisition plan, issuance of a solicitation, receipt and evaluation of proposals and source selection. The OMB handbook also notes that the process for a regular cost comparison also requires the development of a most efficient organization for the in-house operation, the development of a Government bid, and performance of an independent review. The Air Force, which has extensive experience with both the OMB Circular A-76 direct conversion process and cost comparison processes, estimates 15 months to complete a direct conversion and 22 months or more for a regular cost comparison study. The Air Force emphasized the need to accomplish the process correctly, vice expeditiously, to avoid long-term negative effects. DLA should publish a policy statement on obtaining installation services support at the Defense Supply Center, Columbus, and other field activities. The policy statement should delineate organizational responsibilities, document the strategy for performing cost comparison procedures, and establish processes to be followed for commercial activities using OMB Circular A-76 waiver or exception authority. DSCC Installation Services officials that will lead or be assigned to sourcing study teams should attend training related to the development of performance work statements and the OMB handbook cost comparison process.

Right of First Refusal. Both the FAR and OMB Circular A-76 require a contractor to provide a right of first refusal for similar employment opportunities, should the cost comparison result in a contract. For direct conversions, DoD Instruction 4100.33 requires the installation commander to attempt to place or retrain displaced DoD civilian employees in permanent vacant positions or in temporary or over-hire civil service positions. If no vacancies exist or are projected, the installation commander must offer retraining opportunities under the Job Training Partnership Act. If these conditions can not be met, simplified cost comparison procedures must be employed rather than direct conversion.

Motor Pool Disruption

DSCC Installation Services officials reengineered the motor pool operation to limit the scope of their study and to avoid performing an OMB handbook cost comparison. DSCC officials' actions did not comply with legal and policy requirements, and created unnecessary disruption within the motor pool.

Management Meets With Motor Pool. On June 8, 1998, the Deputy Director of the Office of Installation Services and the Chief of the Installations Operations and Program Division met with motor pool employees. The employees stated the DSCC officials informed them that "it was a done deal" to contract out the bus and taxi service operations to Laidlaw. The employees obtained a copy of the Bus and Movement Study during the meeting and questioned the methodology that

DSCC officials used to compare the Laidlaw proposal to the functions to be contracted out. As a result of the meeting, 12 civilian employees assigned to the motor pool signed a memorandum dated June 10, 1998, to the DoD Hotline and Congressman John Kasich alleging that DSCC officials planned to contract out bus and taxi service operations based on incorrect methodology.

DoD Employee Notification. Title 10, U.S.C. 2467(b), and the OMB Circular A-76 contain language suggesting or mandating consultations with the affected employees. Title 10, U.S.C. 2467(b), mandates at least monthly consultation during the development of the performance work statement and the management study. The Circular A-76 Handbook also states that the views of the employees should be obtained in the cost comparison process and that they be kept notified during an impending cost comparison study and be periodically kept informed of its progress. While DSCC officials noted in a March 1998 staff newsletter of efforts to reengineer installations services business units, no notification of the impending cost comparison of the motor pool was made to DSCC employees. DSCC officials met with motor pool employees after they had made the decision to contract out the function to Laidlaw. As a result, DSCC motor pool employees questioned the credibility and integrity of management's actions.

Subsequent Management Actions. A DSCC management official stated September 1998 to us that DSCC had plans to realign installation services operational tasks and reduce civilian employees in the motor pool from 12 to 9. January 1, 1999, was the target date for the start of a commercial motor pool operation. However, DSCC base support contracting personnel were unaware that the Installation Services officials planned to outsource the motor pool function. The DSCC officials had not provided DSCC base-support contracting personnel with documentation (such as a performance work statement) required by contracting personnel to perform a proper market survey and issue a request for proposal. The DSCC management actions did not comply with contracting policy requirements and that the January 1, 1999, target date was not realistic.

Conclusion

The DSCC Bus and Movement Study was not based on a reliable analysis methodology and the May 1998 DSCC management decision was not adequately supported. The mistakes adversely affected the working relationship between DSCC Installation Services management and motor pool employees. These problems caused the DSCC motor pool personnel to question the credibility and integrity of management actions. Management actions since May 1998 did not comply with contracting policy requirements. DSCC officials should restudy the motor pool bus and taxi service operations in accordance with a study plan that complies with legal and policy requirements.

Management Comments on the Finding and Audit Response

DLA Comments on Direct Conversion of Bus and Taxi Functions to Contractor Performance. DLA agreed that the management decision to directly convert the bus and taxi functions to contractor performance was not properly documented, but did not agree that the underlying basis for the direct conversion decision was flawed and DSCC officials ignored or misunderstood verbal directions from DLA management. DLA stated that the bus and taxi functions were appropriate for direct conversion to contractor performance, and DSCC properly determined that the bus and taxi functions were separate commercial activities and that the total number of persons performing each of those activities was 10 or fewer.

Audit Response. DSCC did not document and implement the motor pool staff realignment from 12 to 9 employees prior to the direct conversion determination. The direct conversion was improper because OMB Circular A-76 states an agency may not change, modify or reorganize commercial activities performed by 10 or more employees for the sole purpose of circumventing OMB Circular A-76 requirements. OMB Circular A-76 guidelines require the performance of at least a simplified cost comparison of bus and taxi functions as part of the DSCC restudy.

DLA Comments on Cost Comparison Criteria. DLA stated that neither the FY 1998 or 1999 Defense annual appropriations acts require cost comparisons for any commercial activity function performed by more than 10 DoD civilian employees. DLA stated that section 342 of the Defense Authorization Act of FY 1999 amended 10 U.S.C. 2461(d) to specifically exempt from the reporting requirements commercial or industrial functions performed by 50 or fewer DoD civilian employees.

Audit Response. The FY 1995 DoD Appropriations Act (Public Law 104-61, section 8020) requires that cost comparisons be performed for any commercial activity function of more than 10 DoD civilian employees. We revised the report to include a reference to the cost comparison requirements of the FYs 1995 and 1999 DoD Appropriations Acts.

DLA Comments on DSCC Contracting Actions. DLA stated that all communications with and information obtained by DSCC from Laidlaw was the result of properly performed market research in accordance with FAR.

Audit Response. FAR, part 12, requires agencies to conduct market research to determine whether commercial items and services are available that could meet the agency's requirements. Agencies shall specify needs using market research in a manner designed to promote full and open competition and any exchange of information must be consistent with procurement integrity requirements. DSCC installation support officials performed market research limited to identifying Laidlaw as a commercial source for the bus and taxi services. Their request for a proposal only from Laidlaw and their notification to motor pool employees that it was a "done deal" to award a contract to Laidlaw is evidence that their market research was not designed to promote full and open competition.

DLA Comments on Rights of First Refusal. DLA noted that draft report statements on rights of first refusal was based on DoD Instruction 4100.33 language that was later modified and included as Appendix C to 32 C.F.R. 169a.

Audit Response. We revised the discussion of rights of first refusal based on the modified DoD Instruction 4100.33.

DLA Comments on Motor Pool Disruption. DLA agreed with report statements that actions of DSCC officials created disruption to employees within the motor pool and that management could have made a better effort to communicate with the affected employees.

Recommendations and Management Comments

1. We recommend that the Director, Defense Logistics Agency, publish a policy statement on obtaining installation services support at the Defense Supply Center, Columbus, and other field activities that delineates organizational responsibilities for performing cost comparison procedures and establishes processes to be followed for commercial activities using Office of Management and Budget Circular A-76 waiver or exception authority.

Management Comments. DLA concurred, stating that it was in the final stages of coordinating and publishing a handbook that will provide policy, processes, procedures, and organizational responsibilities to perform cost comparisons for commercial activities using the OMB Circular A-76. The expected completion date for the handbook was March 31, 1999.

2. We recommend that the Commander, Defense Supply Center, Columbus:

a. Require personnel in the Office of Installation Services who will lead or be assigned to sourcing study teams to attend training related to developing performance work statements and the Office of Management and Budget Circular A-76 cost comparison process.

Management Comments. DLA concurred, stating many DSCC Installation services personnel had already attended training and that additional training would be provided as necessary.

b. Restudy the motor pool bus and taxi service operations in accordance with a study plan that complies with legal and policy requirements.

Management Comments. DLA concurred with the recommendation. DSCC will restudy the bus and taxi service operation, document its decision, and provide the affected parties with adequate notification and opportunity to participate in the process. Any current base support contracting action will be suspended.

Appendix A. Audit Process

Scope and Methodology

Work Performed. We reviewed DLA and DSCC methodology and supporting documentation for realigning DSCC installation services and motor pool functions. We reviewed the DSCC Office of Installation Services outsourcing procedures as it applied to the motor pool.

DoD-wide Corporate Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, DoD has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal.

Objective: Fundamentally reengineer DoD and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. (DoD-6)

General Accounting Office High Risk Area. The General Accounting Office has identified several high-risk areas in the Department of Defense. This report provides coverage of the Infrastructure high-risk area.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from June 1998 through November 1998 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. This audit did not rely on computer-processed data.

Contacts During the Audit. We visited or contacted individuals and organizations within the Defense Logistics Agency. Further details are available upon request.

Summary of Prior Coverage. No prior audit coverage has been conducted on the subject during the last 5 years.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," dated August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We did not review the DSCC Management Control Program because of the limited scope of this audit segment.

Appendix B. Summary of the Allegations and Audit Results

The results of the allegations to the Defense Hotline that the Defense Supply Center, Columbus, outsourcing study for bus and taxi service operations was based on incorrect methodology is discussed below.

Allegation 1. The DSCC study recommending motor pool privatization was based on incorrect methodology.

Audit Results. The allegation was substantiated. The procedures that DSCC officials used to perform the Bus and Movement study and notify affected employees did not comply with legal and policy requirements for outsourcing commercial activities.

Allegation 2. DSCC management performed improper contracting and outsourcing procedures.

Audit Results. The allegation was substantiated. The DSCC officials that made the decision to contract out motor pool operations did not have authority to solicit proposals from contractors or award a contract for bus and taxi services. The decision to contract was finalized without consulting a contracting officer.

Allegation 3. The motor pool has 14 personnel, which would qualify under Circular A-76 guidelines for a cost comparison study.

Audit Results. The allegation was substantiated. The motor pool employed 12 full-time equivalent civilian personnel. The 12 full-time equivalents perform 9 identifiable functions. DSCC began a reengineering effort of Installation Support Services in 1996, but did not develop a formal reorganization plan. The motor pool supervisor responded to DSCC management queries in March 1998, that a reorganized motor pool of nine full-time equivalents could perform the nine motor pool functions. However, DSCC performed no analysis to confirm this assertion and took no action to implement a reorganized nine function, nine employee motor pool operation. DSCC Installation Services managers instead performed the May 1998 "Bus and Movement Study" to document the cost effectiveness of contracting out three of the nine motor pool functions. In September 1998, DSCC developed a reorganization plan for installation services operations. The plan would reduce civilian employees in the motor pool from 12 to 9, and motor pool functions from 9 to the 3 functions subject to the "Bus and Movement Study." The remaining six functions and remaining three full-time equivalent employees would be transferred to other Installation Support operations. OMB Circular A-76 handbook at part I, chapter 1, states "that in no case will a commercial activity exceeding 10 employees be modified, reorganized, divided, or in any way changed for the sole purpose of circumventing the requirements of this section." Thus, OMB Circular A-76 guidelines do not allow a motor pool of 12 employees to be directly converted to contract without the performance of at least a simplified cost comparison, even if staff realignment to 9 employees was planned.

Appendix C. Report Distribution

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Defense Logistics Agency Comments



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MAR 15 1999

**MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
DEPARTMENT OF DEFENSE**

**SUBJECT: Outsourcing of Defense Supply Center, Columbus, Bus and Taxi Service
Operations (Project No. 8CH-0008.01)**

This is in response to your December 28, 1998 request for comments on the above draft report. If you have any questions, please contact Ms. Annell Williams, 703-767-6274

Encl

Annell W. Williams
for
JEFFREY GOLDSTEIN
Chief, Internal Review Office

Revised
Page 4

Subject: Outsourcing of Defense Supply Center, Columbus, Bus and Taxi Service Operations (Project No. 8CH-0008.01)

Finding: The decision to contract out the bus and taxi service operations at DSCC does not comply with existing guidance. DSCC officials did not comply with guidance because they were not familiar with the legal and policy requirements for outsourcing commercial activities, and either ignored or misunderstood DLA management verbal directions not to engage in outsourcing actions until reengineering tasks had been completed. As a result, the officials' actions created unnecessary disruption within the motor pool.

DLA Comments: Partially Concur. We concur that the actions of DSCC officials created disruption to employees within the motor pool and that management could have made a better effort to communicate with the affected employees. We also acknowledge that the management decision to directly convert bus and taxi services to contractor performance was not properly documented. We do not concur, however, that the underlying basis of the decision was necessarily flawed. DSCC properly determined that the bus and taxi services were each separate commercial activities, and that the total number of persons performing each of those activities was 10 or fewer. We do not concur that DSCC officials either ignored or misunderstood DLA management's verbal directions not to engage in outsourcing actions until reengineering tasks were completed. Below we explain the underlying basis for our conclusion that the bus and taxi services were appropriate for direct conversion to contractor performance.

The OMB Circular A-76 Handbook, Part I, Chapter 1, states: that in no case will a commercial activity exceeding 10 employees be modified, reorganized, divided, or in any way changed for the sole purpose of circumventing the requirements of conducting a cost comparison. A DOD commercial activity (CA) is defined in DoD's Commercial Activities Program Procedures, 32 CFR Part 169a.3 as follows:

"An activity that provides a product or service obtainable (or obtained) from a commercial source. A DOD CA is not a Governmental function. A DOD CA may be an organization or part of another organization. It must be a type of work that is separable from the other functions or activities so that it is suitable for performance by contract. A representative list of the functions performed by such activities is provided in enclosure 1."

A commercial activity is not defined by how the Government organizes itself. Instead it is defined by looking at the commercial market place to see what services are obtainable. As indicated by the definition above, this requires the governmental organization to separate out those functions or activities that are suitable for performance by contract. Appendix A of the DoD Commercial Activity Program Procedures (32 CFR 169a) provides a list of functional codes and

the individual commercial activities that make up a given function. Motor Vehicle Operations are listed as follows:

S716 Motor Vehicle Operation. Includes CAs (*DOD Commercial Activities*) that operate local administrative motor transportation services. Excludes installation bus services reported in functional area S706.

S716A: Taxi Service.

S716B: Bus Service (unless in S706).

S716C: Motor Pool Operation.

S716D: Crane Operations (includes rigging, excludes those listed in T800G).

S716E: Heavy Truck Operation.

S716F: Construction Equipment Operations.

S716I: Driver/Operator Licensing & Test.

S716J: Other Vehicle Operations (Light Truck/Auto).

S716K: Fuel Truck Operation.

S716M: Tow Truck Operations

The language contained in function code S716 states that it is comprised of individual commercial activities. This is consistent with the above referenced definition of a DOD Commercial Activity, which states it must be a type of work that is separate from other functions or activities and is suitable for performance by contract. Thus, the DOD Commercial Activity Program Procedures expressly allow management to individually consider whether an activity under the functional area is a commercial activity obtainable from commercial sources.

Appendix C to 32 CFR Part 169a provides guidance on procedures to be followed in order to convert a commercial activity employing 45 or fewer DoD civilian employees to contractor performance without a full cost comparison. It also sets forth the procedures for DoD components to directly convert functions with 10 or fewer civilian employees without conducting a cost comparison so long as the following criteria are met:

1. The activity is currently performed by 10 or fewer civilian employees.
2. The direct conversion makes sense from a management or performance standpoint.
3. The direct conversion is cost effective.
4. The installation commander should attempt to place or retrain displaced DoD civilian employees by
 - a. Placing or retraining employees in available permanent vacant positions, or
 - b. Assigning displaced employees to valid temporary or over-hire positions...
 - c. Where no vacancies exist or are projected, offer employees retraining opportunities...

5. The function to be directly converted does not include any DoD civilian positions that were as a result of DoD component streamlining plans and/or were removed with buyout offers that satisfied Section 5 of the Federal Workforce Restructuring Act requirements.

The analysis, however, does not stop there. Pursuant to 32 CFR 169a.17 (h) the installation commander must also consider what is an appropriate grouping of commercial activities to group in a single solicitation. The decision to group must consider such things as:

1. The adverse impact that grouping of commercial activities into a single solicitation could have on small and small disadvantage business concerns.
2. The effect it will have on competition.
3. The duplicative management functions and costs to be eliminated through grouping.
4. The economies of administering multifunction vs. single function contracts, including cost risks associated with the pricing structure of each.
5. The feasibility of separating unrelated functional tasks or groupings.
6. The effect grouping will have on the performance of the functions.

If it is determined to be beneficial to combine separate commercial activities, the appropriate cost comparison procedures must be followed depending upon the number of affected civilian employees. If the combined activities involve 10 or fewer civilian employees, then the direct conversion procedures may be appropriate.

DSCC will restudy the bus and taxi services and properly document its determination in accordance with the procedures outlined above.

Additional Comments:

Language on page 4 of the Draft Audit Report states that "Defense annual appropriation acts require cost comparisons for any commercial activity function performed by more than 10 DoD civilian employees." We reviewed the Defense Appropriations Acts for 1998 and 1999 and could find no such language. The only language we found on point was in Section 8014 of the DoD Appropriations Act for FY 99 which states: None of the funds appropriated by this Act shall be available to convert to contractor performance an activity or function of the Department of Defense that, on or after the date of the enactment of this Act, was performed by 10 Department of Defense civilian employees until a most efficient and cost-effective organization analysis is completed ..."

Also, on page 4 of the Draft Audit Report it incorrectly states that 10 U.S.C. § 2461 requires costs comparisons when a commercial activity function is performed by more than 20 DoD civilian employees. This statute deals with Congressional reporting and notification requirements only. Moreover, the Defense

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Authorization Act of FY99, Sec. 342, amended 10 U.S.C. § 2461(d) to specifically exempt from the reporting requirements commercial or industrial functions performed by 50 or fewer Department of Defense civilian employees.

The language cited on page 5 of the Draft Audit Report under the caption of "Right of First Refusal" was from DODI 4100.33, Encl. 8 (Change 1, 5/8/92). This language was amended in Change 2 issued on 6/12/95. Amended language is referenced above, under Appendix C to 32 CFR Part 169a.

Language contained on several pages of the Draft Audit Report states that DSCC Installation Services engaged in an improper contracting action. DLA nonconcurs with that language. All communications with and information obtained from Laidlaw or any other commercial source was market research properly performed and in accordance with FAR, Part 10.

Recommendation No. 1: DoD-IG recommends that the Director, Defense Logistics Agency, publish a policy statement on obtaining installation services support at the Defense Supply Center, Columbus, and other field activities that delineates organizational responsibilities for performing cost comparison procedures and establishes processes to be followed for commercial activities using Office of Management and Budget Circular A-76 waiver or exception authority

DLA Comments: Concur. DLSC is in the final stages of coordinating and publishing a handbook that will provide policy, processes, procedures and organizational responsibilities to perform cost comparisons for commercial activities using OMB Circular A -76.

Disposition:

- (x) Action is ongoing. ECD: 31 March 1999
- () Action is considered complete

Recommendation No. 2: DoD-IG recommends that the Commander, Defense Supply Center, Columbus:

- a. Require personnel in the Office of Installation Services who will lead or be assigned to sourcing study teams to attend training related to developing performance work statements and the Office of Management and Budget circular A-76 cost comparison process

DLA Comments: Concur. Many of the DSCC Installation Services personnel have already attended A-76 related training. Additional personnel will be provided with the training as necessary.

Disposition:

- () Action is ongoing. ECD:

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(x) Action is considered complete.

- b. Restudy the motor pool bus and taxi service operations in accordance with a study plan that complies with legal and policy requirements.

DLA Comments: Concur. We agree with the need to restudy the bus and taxi service operation and will suspend any base contracting action. DSCC will adequately document its decision and provide the affected parties with adequate notification and opportunities to participate in the process.

Disposition:

- () Action is ongoing. ECD:
(x) Action is considered complete.

Action Officer: John Hanlin CAPT, USNR

Review/Approval: Walter B. Bergmann, II, DLSC

Coordination: Annell W. Williams, DDAI

DLA Approval:


For RADM E.R. Chamberlin, SC, USN
Deputy Director

Audit Team Members

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