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# The Effects of A-76 Cost Comparisons on DoD Civilian Education and Training

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Prepared for the Office of the Secretary of Defense

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## PREFACE

The Department of Defense (DoD) has made considerable use of the Office of Management and Budget's Circular A-76 cost comparison process (Executive Office of the President, May 29, 2003), under which government employees compete with contractors over who will perform a commercial activity, and there are plans for considerably more A-76 comparisons in the DoD. A-76 has also been used in other parts of the federal government; other levels of government also sometimes conduct public-private competitions. In light of the large and potentially growing importance of A-76, the DoD Office of the Chancellor for Education and Professional Development asked the RAND Corporation to examine the effects of A-76 competitions on DoD education and training.

However, while the research was ongoing, the Chancellor's office was absorbed into the Defense Leadership and Management Program division of the DoD Civilian Personnel Management Service (CPMS). The Deputy Under Secretary of Defense for Civilian Personnel Policy became the sponsor of this research with CPMS as the project monitor. Most of the research herein was conducted under the auspices of the Chancellor's office. At the request of the new sponsoring organization, this research was truncated before reaching definitive policy conclusions. Hence, this research should be viewed as background to support a future investigation of the effects of outsourcing on education and training activities. The research discussed herein was primarily undertaken during the spring and summer of 2003.

This inquiry was part of a larger RAND project for the Chancellor's office entitled "An Evaluation of the Potential Effects of Changes in Education Governance, Infrastructure, and Operations on the Quality and Productivity of Education and Professional Development for DoD Civilians." The project also produced Levy et al. (2004), which investigates the effects of Base Realignment and Closure (BRAC) on the education and training infrastructure. As the principal advocate for the academic quality and cost-effectiveness of DoD civilian educational activities, the Chancellor's office wished to influence and prepare for DoD efficiency improvement initiatives like A-76 and Base Realignment and Closure.

In this documented briefing, we discuss the effects of A-76 on DoD educational institutions, the effects of A-76 cost comparisons involving education and training functions, and the effects of any type of A-76 competition on demand for civilian education and training.

This research should be of interest to DoD and other federal personnel overseeing and participating in A-76 cost comparisons as well as to policymakers considering policies related to usage of this mechanism.

This research was conducted within the Forces and Resources Policy Center of the RAND National Defense Research Institute (NDRI). NDRI, a division of the RAND Corporation, is a federally funded research and development center sponsored by the Office of the Secretary of Defense, the Joint Staff, the unified commands, and the defense agencies. Correspondence regarding this documented briefing should be sent to the project leader, Dina Levy, at [dlevy@rand.org](mailto:dlevy@rand.org), or to Susan Everingham, Director of the Forces and Resources Policy Center.

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## **SUMMARY**

*The President's Management Agenda*, introduced in 2001 (Executive Office of the President, 2001), calls for increased use of public-private competition as a strategy for efficiency improvement. The DoD plans to compete tens of thousands of positions currently held by federal workers in upcoming years, following procedures outlined in the Office of Management and Budget's Circular A-76 (Executive Office of the President, May 29, 2003). As the principal advocate for the quality and cost effectiveness of DoD civilian education and professional development activities, the DoD Office of the Chancellor for Education and Professional Development asked the RAND Corporation to help the office understand the ways in which A-76 cost comparisons affect DoD civilian education and training.

## **BACKGROUND**

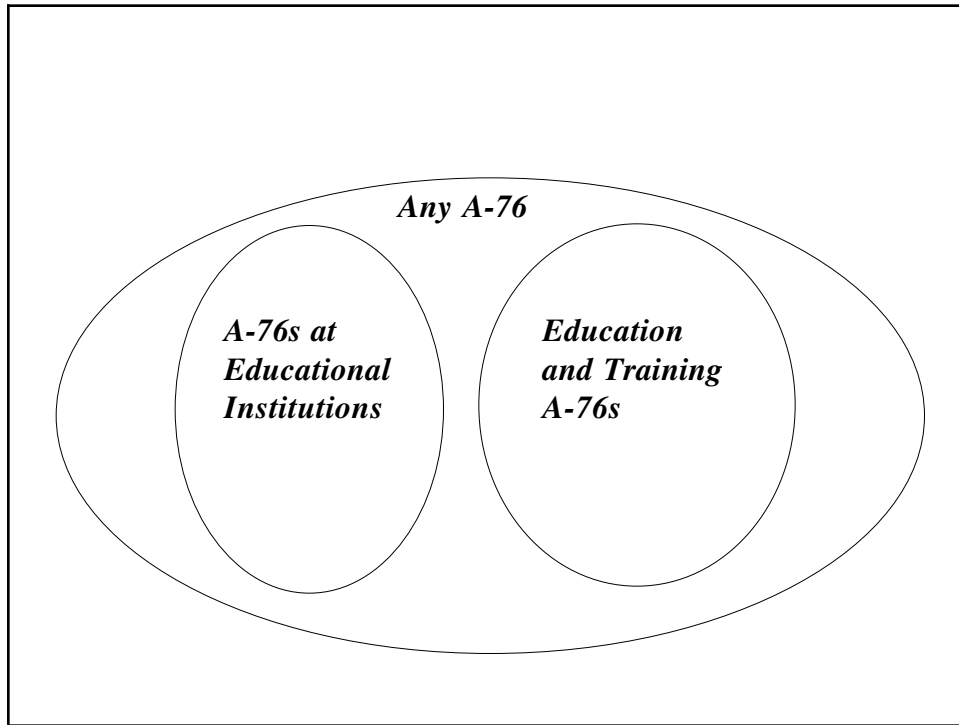
Circular A-76 applies when there is a formal competition between government employees and contractors. When a position (or, more likely, a group of positions) is selected for A-76 competition, a Performance Work Statement (PWS) is developed that specifies the services the government wishes to purchase, without specifying exactly how the services are to be provided. The completed PWS is then transmitted to both government employees and interested contractors. Government employees develop an in-house bid, called the Most Efficient Organization (MEO), which is then compared with the best contractor bid.

Our research approach combined different methodologies. We studied the A-76 literature, which is discussed in the Appendix. We examined the Commercial Activity Management Information System data set, which tracks past A-76 cost comparisons. We then interviewed participants in completed competitions, either in person or by phone or email.

We also identified personnel at installations who knew of completed competitions and their effects. We asked them about the process, its effects, and lessons learned for possible future competitions.

In this documented briefing, we examine the effects on civilian education and training of A-76 competitions across three domains, as depicted in Figure S.1: A-76s at DoD-operated educational institutions, education and training

A-76s (i.e., competitions that target education and training functions) at other installations, and general effects of any A-76 competition on demand for civilian training.



**Figure S.1**  
**Different Domains of A-76 Effects**

#### **A-76s AT EDUCATIONAL INSTITUTIONS**

We first considered the effects of A-76 cost comparisons on DoD educational institutions. We investigated the effects of A-76 competitions on the Naval Postgraduate School, the Defense Language Institute at the Presidio of Monterey, and the Air Force Academy. All three institutions have a primary focus on military education; all three also have recent experience with A-76.

Broadly speaking, the three institutions' experiences have been consistent. A-76 competitions at all three institutions have targeted support functions (e.g., public works, personnel support, and logistics). Consistent with the findings of other research on A-76, these institutions' A-76 competitions seem to have generated savings. Fewer workers (either government employees or contractors) now provide the studied functions than was the case prior to the competitions. However, the A-76 competitions have also raised

concerns. The competitions have been lengthy and reportedly expensive with considerable damage to employee morale. The net effects of A-76 competitions on the institutions' education missions are not obvious.

#### **EDUCATION AND TRAINING A-76s**

A number of installations and commands that do not have education as their primary mission have nonetheless conducted A-76 competitions involving the education and training function. Many of these competitions have involved the administrative support of education and training (e.g., scheduling tests, maintaining records, and counseling personnel). They generally have not involved the actual provision of education and training. (A mix of DoD, other governmental, and private-sector entities provides education and training to DoD employees.) The competitions of this type that we reviewed involved disparate numbers of authorized positions. Some of the competitions were won by contractors, others by government employee MEOs. Most have saved money but have resulted in a reduction in customer service, we were told.

#### **GENERAL EFFECTS OF A-76s ON CIVILIAN EDUCATION AND TRAINING**

Our research yielded several general findings about the effects of A-76 competitions on civilian training demand. A-76s may cause a short-run increase in training demand as DoD employees displaced by competition shift into different positions. Also, civilians may be hired to replace military personnel in MEOs. On the other hand, long-run training demand may decrease. If a contractor wins, employee training is usually no longer the DoD's responsibility. Victorious MEOs, meanwhile, are typically smaller than what they replaced, implying fewer long-run employee training demands.

There also may be different DoD employee leadership training needs with increased contractor support. DoD leaders will need to be knowledgeable about how to interact with contractors. Further, the tradition of a DoD leader overseeing personnel in positions the leader once held may become less common. The development of DoD and other governmental leaders may need to change to meet future needs.



## ACKNOWLEDGMENTS

The authors are grateful for the time and assistance of numerous DoD personnel. Lorna DeLay of the Office of the Undersecretary of Defense for Installations and Environment provided us with the Commercial Activity Management Information System data file. We appreciated the time and assistance of the individuals we visited including George Connor and his colleagues at the Naval Postgraduate School, Peggy Weilandt and her colleagues at the Presidio of Monterey, Dr. Sue Jacobsen and her colleagues at Edwards Air Force Base, Steve Green of the Air Force Academy, and Rich McMullen and his colleagues at Space Command headquarters at Peterson Air Force Base. We also had lengthy telephone and email dialogues with numerous individuals. We appreciate all of their assistance. Colin Hunter and Joseph Peace of Pacific Air Forces and Hickam Air Force Base were notably helpful.

We also thank retired DoD Chancellor Jerome Smith for his long-term sponsorship of RAND research and thank his former colleague Jim Raney for his enthusiastic and insightful role as our project monitor.

We appreciate constructive reviews of this document from our colleagues Tora Bikson and Ellen Pint. Frank Camm contributed numerous helpful insights about the A-76 process. Susan Everingham supervised this research project. Christina Pitcher edited this document.

Naturally, the authors alone are responsible for factual and interpretive errors that remain in the document.



## ABBREVIATIONS

AB	Air Base
AFA	Air Force Academy
AFB	Air Force Base
APG	Aberdeen Proving Ground
CAMIS	Commercial Activity Management Information System
CNA	Center for Naval Analyses
CPMS	Civilian Personnel Management Service
DLI	Defense Language Institute
DoD	Department of Defense
DOIM	Directorate of Information Management
DPW	Department of Public Works
FAIR	Federal Activities Inventory Reform
FTE	Full Time Equivalent
FY	Fiscal Year
GAO	General Accounting Office
IIA	Information International Associates
IT	Information Technology
MEO	Most Efficient Organization
NPS	Naval Postgraduate School
OMB	Office of Management and Budget
PACAF	Pacific Air Forces
PoM	Presidio of Monterey
PWS	Performance Work Statement
ROTC	Reserve Officers' Training Corps







RAND NATIONAL DEFENSE RESEARCH INSTITUTE

***The Effects of A-76 Cost Comparisons  
on DoD Civilian Education and Training***

**February 2004**

## ***The President's Management Agenda Calls For More Competitive Sourcing***

- **The 1998 Federal Activities Inventory Reform (FAIR) Act requires agencies to designate jobs open to competition**
  - Identify jobs that are not “inherently governmental”
- **DoD 2002 FAIR Act submission reported that 222,820 of 410,699 DoD civilian commercial FTEs were potential candidates for competition**
  - DoD plans to compete tens of thousands of these positions in upcoming years
- **The DoD Chancellor's office asked RAND to assess the effects of A-76 cost comparisons on DoD civilian education and training**

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A-76 Cost Comparisons, 2

President Bush's management agenda, introduced in August 2001, calls for increased competitive sourcing in the federal government.

The 1998 Federal Activities Inventory Reform (FAIR) Act requires agencies to designate jobs that are open to competition. Inherently governmental jobs - those determined to be so “intimately related to the public interest as to mandate performance by Federal employees” - are not open to competition.

The Department of Defense's (DoD's) 2002 FAIR Act submission identified 222,820 of 410,699 civilian commercial full time equivalents (FTEs) as potential candidates for competition (see FAIRNET web site). The DoD plans to compete tens of thousands of these positions in upcoming years. See, for instance, Phinney (2003).

The Office of Management and Budget's (OMB's) Circular A-76 outlines the procedures for conducting a cost comparison of private-sector and in-house performance of commercial activities. In light of the upcoming competitions, the DoD Chancellor's office asked the RAND Corporation to assess the effects of A-76 cost comparisons on DoD civilian education and training. This documented briefing presents our findings. In the Appendix of this document, we present background on the A-76 process.

## ***Outline***

- ➔ • **Background**
  - **A-76 at Educational Institutions**
  - **Education and Training A-76s**
  - **General Effects of A-76s on Civilian Training**
  - **Conclusions**

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A-76 Cost Comparisons, 3

Our goal in this research has been to help the DoD Chancellor understand the effects, both direct and indirect, of A-76 cost comparisons on DoD civilian education and training.

We divide this briefing into five sections. We start with background on this work.

## ***DoD Purchases Education and Training From Myriad Sources***

- **Within DoD: e.g., Service academies, NPS, DLI**
- **Other federal sources: e.g., Department of Agriculture Graduate School, State Department Foreign Service Institute**
- **Other governmental: e.g., ROTC and graduate education at public universities, training classes at community colleges**
- **Private sources: e.g., ROTC, undergraduate, and graduate education at private universities, contracted training courses**

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A-76 Cost Comparisons, 4

DoD purchases education and training for military personnel and civilians from myriad sources. As we will discuss further below, most of these sourcing decisions were made without using A-76 cost comparisons.

Some education and training is provided by education-focused DoD entities like the service academies, the Naval Postgraduate School (NPS), and the Defense Language Institute (DLI). Other education and training comes from non-DoD federal sources like the Department of Agriculture's Graduate School and the State Department Foreign Service Institute.

Public universities and community colleges provide both Reserve Officers' Training Corps (ROTC), undergraduate, and graduate education and various types of training classes. Private sources also provide both training and education.

## ***Most Education and Training Sourcing Is Unrelated to A-76***

- **Civilians and military personnel have choices as to where to obtain voluntary education**
  - **Training officers can purchase courses as needed from government and private sources, subject to their budget constraints**
  - **A-76 applies only to that subset of cases where there is a formal competition between government employees and contractors**
- ➔ – **The remainder of this briefing focuses on A-76 and its impact on education and training**

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A-76 Cost Comparisons, 5

As noted above, the vast majority of education and training sourcing decisions are unrelated to Circular A-76. For example, civilians and military personnel choose where they wish to obtain voluntary education, even if it is paid for by DoD. In addition, installation-level training officers can purchase courses as needed from government and private sources, subject to their budget constraints.

OMB Circular A-76 applies only to that subset of cases in which there is a formal competition between government employees and contractors.

While the rest of this briefing focuses on A-76, it should be noted that A-76 applies to only a small fraction of the decisionmaking related to the administration and provision of education and training.

## ***In An A-76 Cost Comparison, Government Employees Compete With Contractors***

- **Belief is that such competition leads to cost savings, whether contractor or MEO wins**
  - **A-76s do not always result in outsourcing**
- **May 2003 revision of Circular A-76 is intended to streamline the process**

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A-76 Cost Comparisons, 6

When a position (or, more likely, a group of positions) is selected for A-76 competition, a Performance Work Statement (PWS) is developed that specifies the services the government wishes to purchase, without specifying exactly how the services are to be provided. The completed PWS is then transmitted to both government employees and interested contractors. Government employees develop an in-house bid, called the Most Efficient Organization (MEO), that is then compared against the best contractor bid.

Historically, MEOs have won roughly half of A-76 competitions. Evidence suggests such competition results in cost savings, irrespective of who wins the competition. See, for instance, Marcus (1993), Tighe et al. (1996), Gates and Robbert (2000), and Clark et al. (2001).

Concerned that A-76 competitions are too lengthy, the current administration revised Circular A-76 to shorten and streamline the process. See Walker (2003). Keating (1997) noted it was not uncommon for A-76 cost comparisons conducted in fiscal years 1978-1994 to take two years or longer to complete. Under the new rules, the comparisons are to be completed in 12-18 months. We discuss the 2003 A-76 reform in more depth in the Appendix.

## ***RAND's Research Combined Different Methodologies***

- **Review of A-76 literature**
- **Examination of CAMIS data set tracking past A-76 cost comparisons**
- **Interviews and/or visits with participants in completed and canceled competitions**

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A-76 Cost Comparisons, 7

We combined different methodologies in this research.

First, we reviewed the literature on A-76. This literature is discussed in the Appendix.

Second, we obtained a copy of the DoD's Commercial Activity Management Information System (CAMIS) data set. CAMIS tracks completed and ongoing A-76 cost comparisons. We restricted our attention to competitions that have been either completed or canceled; we did not wish to delve into the sensitivities of ongoing competitions.

Third, we located, interviewed by phone or email, and, in some cases, visited participants in completed or canceled competitions.

***We Identified and Interviewed Personnel  
Knowledgeable About  
Completed Competitions***

- How did process play out?
- What were its effects?
- How is situation now different than it was before competition?
- What are “lessons learned” for possible future competitions?

**Our interviewees were most often experienced government civilians or military personnel who oversee the current MEO or contractor**

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A-76 Cost Comparisons, 8

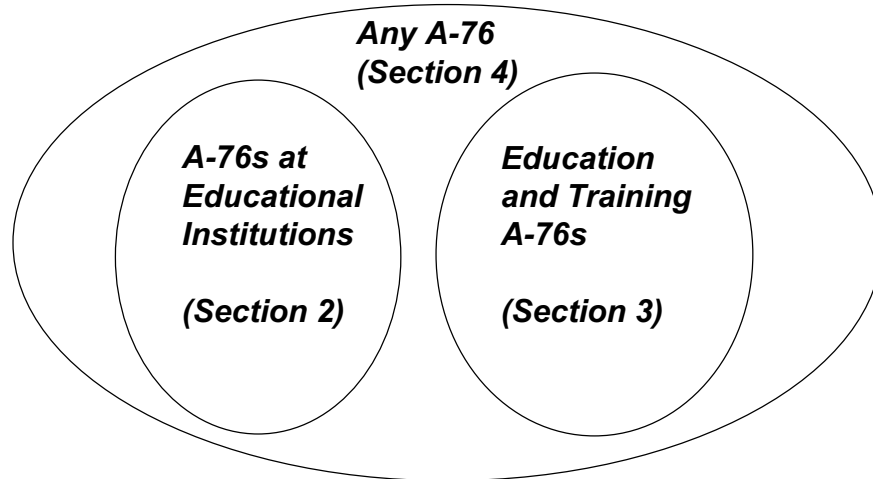
Once we found personnel who were knowledgeable and willing to talk about their competitions, we used a semi-structured interview protocol.

We asked how their competition played out, e.g., how it started, how long it took, issues that arose. Then we asked for their impressions of the competition’s effects and how today’s situation differs from that before the competition. Finally, we asked for any “lessons learned” that could apply to others dealing with similar competitions.

Our interviewees were most often experienced government civilians or military personnel who oversee the current MEO or contractor. We note that there could be availability biases associated with those whom we interviewed. It is possible that the sample of willing interviewees differs from the pool of possible interviewees.



## ***We Evaluated the Effects of A-76 Competition Along Several Domains***



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A-76 Cost Comparisons, 9

In subsequent sections of the briefing, we examine the impact on civilian education and training of A-76 competitions across three domains we identified as the research progressed.

In Section 2, we discuss A-76 experiences at DoD educational institutions.

In Section 3, we will discuss A-76 cost comparisons that are coded as involving education and/or training. Although in theory such cost comparisons could occur at any installation, empirically we observed such examples at installations not primarily focused on an education mission. (For this reason, we do not depict the Section 2 and Section 3 ovals as overlapping.)

In Section 4, we will discuss general effects of any A-76 competition on demand for civilian training.

## ***Outline***

- **Background**
- ➔ • **A-76 at Educational Institutions**
- **Education and Training A-76s**
- **General Effects of A-76s on Civilian Training**
- **Conclusions**

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A-76 Cost Comparisons, 10

We first discuss A-76 experiences at DoD educational institutions.

## ***Effects of A-76 Are Clearest At Education-Focused Installations***

- **We visited the Naval Postgraduate School (NPS), the Defense Language Institute (DLI) at the Presidio of Monterey (PoM), and the Air Force Academy (AFA) and learned about their A-76s**
- **NPS, DLI, and AFA are located on education-focused installations with few other missions**
- **Many other institutions are all relatively small compared to other missions on their installations**

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A-76 Cost Comparisons, 11

We first consider the effects of A-76 cost comparisons on DoD educational installations, that is, installations whose main mission focuses on education and training.

We visited NPS, Presidio of Monterey (PoM), and the Air Force Academy (AFA) and learned about their A-76 experiences. These education-focused installations have few other missions and therefore allow relatively straightforward assessment of the effects of A-76 competitions on education.

In contrast, many other educational institutions, e.g., the Air Force Institute of Technology, the DoD Polygraph Institute, the Defense Information School, and the National Geospatial Intelligence College, represent only a relatively small component of their installations' missions.

## ***NPS Has Had Considerable Recent Experience with A-76***

- **Public Works:** Won by MEO
- **Supply:** Won by Contractor
- **Computing:** Converted to a Functionality Assessment
- **Family Services:** Canceled
- **Guard Services:** Canceled

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A-76 Cost Comparisons, 12

NPS has had considerable recent experience with A-76 competitions, spanning a variety of outcomes, as shown in this partial list of NPS A-76 experiences since 1990.

A public works A-76 (that CAMIS indicates involved 209 civilian authorizations) was won by the MEO. In contrast, a supply A-76 (27 civilian, 20 military authorizations) was won by a contractor.

A computing A-76 (79 civilian authorizations) was converted to a Functionality Assessment after concerns were expressed that the PWS developers could not “adequately address support requirements for leading edge research and education in a contractual statement of work.” (See Ackley, 2002.) With a Functionality Assessment, a government employee MEO is created without going through an A-76 cost comparison. Functionality Assessments appear to be primarily used by the Navy.

An NPS-specific family services A-76 (8 civilian authorizations) was canceled when the Navy decided to do a Navy-wide examination of this function. NPS also canceled a guard service A-76 (26 civilian authorizations) after the school decided to replace the civilian guards with military police.

## ***PoM Recently Completed Two A-76s***

- **Directorate of Information Management: Won by MEO**
- **Personnel Support: Won by MEO**
- **Visual Information Services turned over to contractors since an A-76 competition in the 1980s**

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A-76 Cost Comparisons, 13

PoM participated in two support A-76s since 1990, both of which were won by MEOs. CAMIS indicates that the Directorate of Information Management (DOIM) competition involved 41 civilian authorizations, while the Personnel Support competition covered 18 civilian and 13 military authorizations. (In accord with A-76 rules, the military personnel support positions were civilianized in the MEO.)

A Visual Information Services A-76 (37 civilian, 10 military authorizations) in the mid-1980s was won by a contractor. Since then, that function has been provided by a sequence of contractors as the contract has periodically been re-competed.

## ***Both NPS and PoM Had Many Concerns About A-76s***

- **Process is lengthy (e.g., 1998 comparisons only recently being implemented)**
- **Process is expensive (e.g., management attention focused on A-76s, need to hire contractors to assist)**
- **Morale is hurt**
- **Focus is on low bidder without appropriately accounting for quality**
- **Process is inflexible once PWS is developed**
- **MEOs still subject to “salami slicing” after implementation**
- **Contractors will want more funding to do additional work**

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A-76 Cost Comparisons, 14

Personnel at both NPS and PoM had many concerns with A-76 competitions, most of which are not unique to education-related installations. See, for instance, discussion of similar problems in other installations' A-76 competitions in Robbert, Gates, and Elliott (1997).

Some concerns focused on the length and cost of the A-76 process. For example, PoM's A-76s were announced in late 1998 and were only being implemented in 2003. In addition, A-76s are expensive, both in terms of focusing management attention and in terms of requiring contractor support. KPMG, for instance, has been hired to assist in MEO development at NPS.

Employee morale is, not surprisingly, hurt as the longevity of employee jobs is uncertain. One person we talked to at an installation described A-76s as “an exercise in fear.”

The A-76 process, it was suggested, tends to focus on giving work to the low bidder without appropriately accounting for quality. In accord with Gates and Robbert (2000), the process was felt to be inflexible once the PWS was written. All bids had to accord with the PWS even if further innovation was possible.

The process was felt to have different effects depending on whether the winner was an MEO or a contractor. For example, if an MEO wins the cost comparison, it is still subject to “salami slicing” budget cuts, belying the notion it was already “most efficient.” Meanwhile, a victorious contractor usually requires additional funding anytime the mission evolves beyond the PWS, which is likely to be common, given the PWS was probably written several years prior.

## ***AFA A-76 Study by Green et al. Reached Conclusions Similar to Ours***

- **Competitions involved civil engineers, cadet dining hall, logistics, communications, other support functions**
  - **Some won by contractors, some by MEOs**
- **General findings (e.g., cost savings in exchange for disruption, morale problems, and potentially degraded performance) accord with our findings for NPS and PoM**
- **Green et al. note concerns with loss of flexibility to respond to future developments, e.g., post 9-11-01 security**

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A-76 Cost Comparisons, 15

Green et al. (2003) studied the results of seven recent A-76 cost comparisons at the AFA. As at NPS and PoM, these competitions involved support functions. Several were quite large, including civil engineers (376 civilian and 121 military positions before the A-76), cadet dining hall (286 civilian, 11 military), logistics (116 civilian, 1 military), and communications (81 civilian, 33 military).

Broadly speaking, Green et al.'s AFA findings accord with what we learned at NPS and PoM. The A-76s almost certainly saved money, though Green et al. suggest that cost saving estimates may be overstated because of study, severance, and other nontallied costs. But the savings came at the cost of considerable disruption, employee morale degradation, and potentially degraded performance quality at the AFA.

Green et al. note that whether an MEO or a contractor wins a competition, the winner will likely experience a loss of flexibility to respond to future developments, such as the need for increased security after the 9-11-01 terrorist attacks. An MEO typically has fewer personnel and hence less slack after a competition while a contractor will need and want a cost-increasing contract amendment for any material increase in its responsibilities. Of course, given stringency in DoD's budget constraint, it may be untenable to have slack in any support function.

## ***Effects of A-76s on Educational Mission Are Not Clear***

- **NPS, PoM, and AFA A-76s have targeted support functions, not education or training**
- **Faculty is indirectly burdened**
  - **NPS professors and DLI instructors are receiving less computer support**
  - **AFA has experienced turnover of secretaries**

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A-76 Cost Comparisons, 16

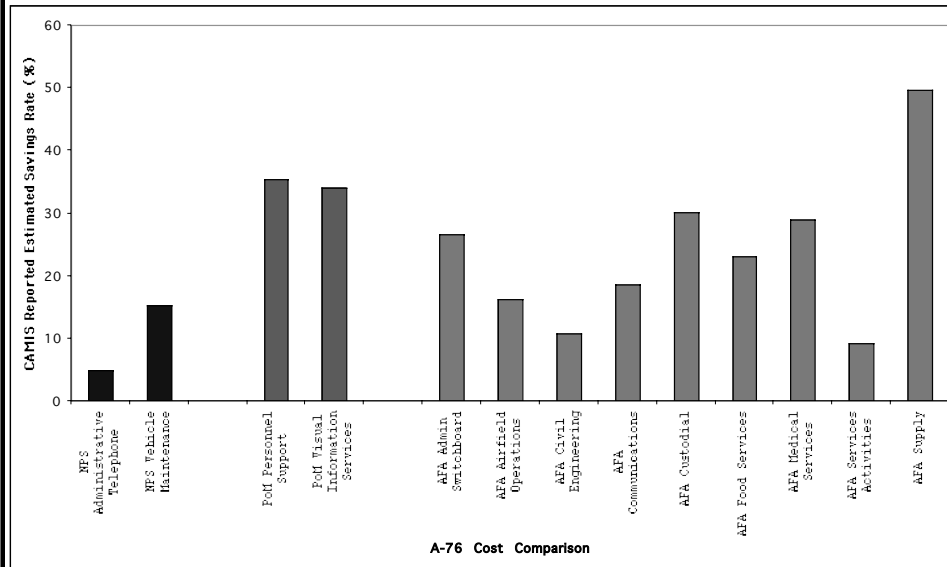
The effects of A-76 competitions on educational mission are not clear from the NPS, PoM, and AFA cases. Their A-76s, to date, have involved support functions. Their effects on the faculty and instruction have therefore been indirect.

However, interviewees noted that NPS professors and DLI instructors now get less computer support due to NPS's computing Functionality Assessment and PoM's DOIM A-76.

At the AFA, it was reported that departmental secretarial positions were subject to considerable disruptive turnover after the A-76 competitions in other parts of the installation because the department secretarial positions were occupied only briefly by displaced government workers who aspired to different positions.



## A-76s Do Seem To Generate Savings



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A-76 Cost Comparisons, 17

Valid concerns with A-76s notwithstanding, the A-76 cost comparisons we examined seem to have generated savings.

This figure presents estimated savings percentages recorded in CAMIS for some NPS, PoM, and AFA cost comparisons.

Gates and Robbert (2000) carefully examined A-76 cost savings. While a specific savings rate recorded in CAMIS may be subject to question, they argued that there have been genuine savings from A-76.

In a number of cases, CAMIS does not record an estimated cost savings rate for a given cost comparison. However, all the A-76 cost comparisons we studied resulted in fewer personnel (either government employee or contractor) now providing the studied service than was the case prior to the competitions.

Savings can also emanate from A-76 indirectly. NPS ran Functionality Assessments of its administrative and computer support functions. These Functionality Assessments, while not formally part of the A-76 process, were designed to generate savings so as to ward off A-76 cost comparisons, we were told.

## ***Dissatisfaction with A-76 Is Intertwined With Budget Cut Dissatisfaction***

- Any large-scale budget cut would be painful
  - A-76 elicits negative reactions, but the reactions may be fundamentally to the budget cut, as much as to A-76 per se
- Could commensurate cuts be achieved outside of A-76?

RAND

A-76 Cost Comparisons, 18

Much of the dissatisfaction with A-76 cost comparisons results from associated budget cuts, which are typically substantial. Any large-scale budget cuts, independent of A-76, would likely elicit negative reactions. Thus, it is difficult to determine whether the negative reactions to A-76 that were reported might have similarly resulted from commensurate budget cuts that did not involve A-76.

While many we interviewed were dissatisfied with A-76, it may be impossible to achieve commensurate savings without use of A-76.

## ***Outline***

- **Background**
- **A-76 at Educational Institutions**
- ➔ • **Education and Training A-76s**
- **General Effects of A-76s on Civilian Training**
- **Conclusions**

RAND

A-76 Cost Comparisons, 19

Next we discuss A-76 competitions focused on education and training functions.

## ***We Examined Recent A-76s Involving Education and Training Functions***

Year	Won By MEO	Won By Contractor
1997	<ul style="list-style-type: none"> <li>• Aberdeen Proving Ground (APG) Information Services</li> <li>• White Sands Missile Range Education and Library Services</li> </ul>	
1998	<ul style="list-style-type: none"> <li>• Space Command Education, Training, and Personnel</li> <li>• Sierra Army Depot Department of Public Works (DPW) and Information Technology (IT)</li> </ul>	<ul style="list-style-type: none"> <li>• Hanscom Air Force Base (AFB) Education Training and Personnel</li> </ul>
1999		<ul style="list-style-type: none"> <li>• Eglin AFB Administrative Support</li> </ul>
2000	<ul style="list-style-type: none"> <li>• Pacific Air Forces (PACAF) Education Services</li> </ul>	
2001		<ul style="list-style-type: none"> <li>• Edwards AFB Education Services</li> </ul>

RAND

A-76 Cost Comparisons, 20

In this chart, we show some recently completed A-76 cost comparisons that involved education and training functions. The left column shows the year in which the competitions were announced, while the center column lists those competitions won by the MEO, and the right column lists those won by a contractor.

We found these competitions in CAMIS either because they were coded as involving education and/or training or because their competition titles suggested such a focus. For each of these competitions, we contacted personnel involved and learned about the competitions and their effects. We appreciate the consideration of the personnel who assisted us.

There were other education-related A-76 cost comparisons about which we were unable to obtain detailed information. We also chose not to examine currently ongoing cost comparisons, both because of the sensitivity of the information and because of the lack of final outcome data.

## ***These Competitions Involved Disparate Numbers of Authorized Positions***

Year	Won By MEO	Won By Contractor
1997	<ul style="list-style-type: none"> <li>• APG: 178 civilian authorizations, 5 military authorizations</li> <li>• White Sands: 12 civilian</li> </ul>	
1998	<ul style="list-style-type: none"> <li>• Space Command: 13 civilian, 81 military</li> <li>• Sierra: 89 civilian</li> </ul>	<ul style="list-style-type: none"> <li>• Hanscom: 6 civilian, 8 military</li> </ul>
1999		<ul style="list-style-type: none"> <li>• Eglin: 13 civilian, 39 military</li> </ul>
2000	<ul style="list-style-type: none"> <li>• PACAF: 21 civilian, 52 military</li> </ul>	
2001		<ul style="list-style-type: none"> <li>• Edwards: 14 civilian, 5 military</li> </ul>

RAND

A-76 Cost Comparisons, 21

These competitions varied widely in size, as shown in this chart. The listed figures are for the number of authorized positions at the commencement of A-76 examination.

Some of these data come from CAMIS, while other data come from personnel we interviewed who were involved with the competitions. In some cases, there were significant deviations between the size of the competition as reported in CAMIS and what we were told by installation-level personnel. When there was a conflict, we display information provided by installation personnel.

In each case, we have listed the number of authorized positions involved in the competition. There can be nontrivial differences between the number of positions authorized in a function at a location and the number of positions actually filled on the date the competition was announced.

## ***Civilian Training Can Be A Small Component of a Much Larger A-76***

- **APG DOIM indicated its employees have a small role in teaching installation employees to use the Defense Message System**
  - **APG DOIM suggested this A-76 did not fundamentally involve civilian training**
- **Sierra A-76 involved one training officer position**
  - **Training officer oversees, coordinates depot employee training**
  - **Training is actually provided by private contractors, DoD providers, and the local community college**

RAND

A-76 Cost Comparisons, 22

While interviewing installation personnel, we learned that, in some cases, civilian training was a small component or by-product of a much larger multifunction A-76 competition.

For example, APG's A-76 targeted computer support at the installation, which included the task of teaching installation personnel how to use the Defense Message System. The APG Director of Information Management said, however, that such training was only a small portion of his employees' responsibilities. Thus, he felt that this A-76 was miscoded as involving civilian training.

Similarly, the Sierra Army Depot Department of Public Works (DPW) and Information Technology (IT) A-76 involved only one civilian training officer position, whose responsibilities include oversight and coordination of depot employee training. The training itself is provided by a mix of private contractors, DoD providers, and the local community college.

## ***Hanscom and Eglin Contracted Administrative Support of Education and Training***

- **Titan Systems (formerly Horizon Technology) at Hanscom and Information International Associates at Eglin support Directors of Education**
  - **Schedule tests for civilians and military**
  - **Obtain, keep, update, and release training and education records**
  - **Counsel personnel about education and training options**
  - **Perform “nitty, gritty legwork” associated with arranging and overseeing training**
- **Training itself is provided by both government sources (e.g., Defense Acquisition University) and local vendors**

RAND

A-76 Cost Comparisons, 23

Contractors won the education services competitions at both Hanscom and Eglin Air Force Bases. Titan Systems (formerly Horizon Technology) won at Hanscom, while Information International Associates (IIA) won at Eglin.

Both contractors' responsibilities are of an administrative and record-keeping nature, for both civilian and military training. One Eglin employee described IIA's role as providing the “nitty, gritty legwork” associated with arranging and overseeing training.

As at Sierra Army Depot, the training itself is provided by a mix of governmental and private providers.

## ***Space Command Considers Its Education, Training, and Personnel MEO Too Small***

- **Winning MEO bid was nearly \$1 million/year less than pre-competition baseline, best contractor bid**
  - **“Win at all costs” mentality**
- **Mission has subsequently increased (e.g., increased tuition programs) without MEO being allowed to grow**
- **“You really have to bid to the work”**

RAND

A-76 Cost Comparisons, 24

In contrast to Hanscom and Eglin, Space Command’s education, training, and personnel cost comparison was won by a government employee MEO. The functions studied were, however, similar.

Three years after the MEO was implemented, Space Command education services personnel believed their MEO was too small. The MEO’s bid was nearly \$1 million per year less than the pre-competition baseline and the best contractor bid. (The MEO’s bid for five years of performance was \$12.363 million, versus a baseline cost of \$16.382 million and a contractor bid of \$17.226 million.) The MEO development team, it was suggested, had a “win at all costs” mentality.

Exacerbating the problem, tuition programs for military personnel to obtain higher education have become more generous, thereby creating additional demand for the MEO’s services. However, the MEO had not been allowed to grow.

Space Command personnel reported that they would urge others in A-76 competition to bid to the work, rather than focusing exclusively on what it might take to win the competition.



## ***No Private Contractors Bid On PACAF's Education Services A-76***

- **Competition covered Andersen AFB, Eielson AFB, Elmendorf AFB, Hickam AFB, Kadena AB, Kunsan AB, Misawa AB, Osan AB, and Yokota AB**
- **Functions covered were similar to Hanscom's, Eglin's, and Space Command's (i.e., administration of military training and military and civilian education)**
- **No contractors submitted bids**
  - **PACAF reportedly capped bids at less than 75% of pre-competition cost**
- **Savings reportedly occurred at the cost of reduced customer service**

RAND

A-76 Cost Comparisons, 25

PACAF's Education Services A-76 covered all nine installations in the command, including three in Japan [Kadena, Misawa, and Yokota Air Bases (ABs)] and two in the Republic of Korea (Kunsan and Osan ABs).

The functions studied were similar to those studied at Hanscom, Eglin, and Space Command (i.e., they involved the administration, rather than the provision, of military training and military and civilian education).

Unlike Hanscom, Eglin, and Space Command, no contractors bid on the PACAF Education Services A-76. PACAF reportedly capped bids at less than 75 percent of the pre-competition cost, thereby discouraging contractor participation. The MEO was the only bidder. (Having the MEO as the only bidder is not a typical outcome; the other competitions discussed in this briefing had contractor bids.)

PACAF personnel reported the A-76 has resulted in savings but at the cost of reduced customer service by the MEO.

## ***Edwards AFB Recently Transitioned To Contractor Support***

- **IIA won Education Services cost comparison at Edwards AFB**
  - Same contractor Eglin uses
- **When IIA was announced as winner, to-be-displaced government employees began leaving jobs**
  - Edwards hired temporary workers to continue to provide services
- **IIA hired most of Edwards' temps**
- **Edwards reports IIA was “shocked and pleased” by training Edwards provided to IIA’s future employees**

RAND

A-76 Cost Comparisons, 26

We visited Edwards AFB in July 2003, during the transition to contractor provision of educational services. Edwards' A-76 cost comparison, which was announced on August 30, 2001, was won by contractor IIA, the same contractor Eglin uses. Again, education services in this case refer to administration, but not provision, of education and training.

When the final decision was announced in late 2002, the to-be-displaced Edwards government employees began leaving their positions, in most cases for other jobs on the installation. Edwards then had to hire temporary government employees to provide the services until IIA officially took responsibility on October 1, 2003.

IIA hired most of Edwards' temporary employees. When we visited the base, installation personnel told us IIA was “shocked and pleased” by the training Edwards provided to IIA's future employees. Of course, Edwards had to fill the positions temporarily to continue to provide the function between the final decision announcement and when IIA took over, so the training provided was not pure altruism toward IIA.

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RAND

A-76 Cost Comparisons, 27

Next, we will discuss general effects of any type of A-76 on civilian training.

## ***A-76s May Increase Training Demands In The Short Run, Decrease Them in the Long Run***

- Training demands are likely to increase in the short run
  - Displaced government employees may change jobs, creating new training needs
  - MEOs may hire civilians to replace military personnel; new civilians will need training
- Training demands are likely to decrease in the long run
  - If a contractor wins, employee training is usually no longer the government's responsibility
  - A victorious MEO will likely employ fewer personnel than before the competition

RAND

A-76 Cost Comparisons, 28

Training demands will probably increase in the short run. As we will discuss next, the A-76 process will likely cause government employees to change jobs. These job changes will then translate into new training needs. Also, if a government MEO wins a cost comparison, there will be a need to hire, and therefore train, government civilian employees to replace military members. A-76 rules prohibit military participation in MEOs. Personnel at Space Command indicated that hiring retired military as civilians was one way to minimize the costs of the military-to-civilian transition.

On the other hand, training demands will probably decrease in the long run. If a contractor wins a cost comparison, employee training then becomes that contractor's responsibility. (We found a few exceptions to this generalization. For example, with the PACAF Training and Education Services A-76 cost comparison, the government was to provide a minor amount of training, e.g., on security issues, to the employees of the winner of the A-76, whether in-house or contractor.) If an MEO wins a competition, the MEO will likely employ fewer personnel than before the competition, reducing training demand over the long run.

## ***Demand for Civilian Training May Increase Because of Bumping and Retreating***

- **Bumping:** Displacement of someone who is in a lower tenure group or in the same tenure group with lower veteran's preference
- **Retreating:** Akin to bumping, but permitted based on seniority in the same tenure group. Position must be "essentially identical" to one previously held.
- **In practice, bumping and retreating can result in more short-run training demands, e.g., workers who need training for certifications in their new positions**

RAND

A-76 Cost Comparisons, 29

When an A-76 cost comparison displaces a government employee, he or she has the right to "bump" or "retreat" into a different job. Indeed, bumping and retreating can cascade, with one initial displacement resulting in a sequence of bumps and retreats.

Robbert, Gates, and Elliott (1997) discuss the rules for and effects of bumping and retreating. Bumping and retreating is especially common when an MEO loses an A-76 competition because senior government employees then exercise these rights.

Reportedly, such bumping and retreating can result in short-run demand for training, because workers may need training to be certified in their new positions.

## ***Increased Contractor Support Can Result In Different Leadership Training Needs***

- **If a contract is in place, government directors interact with contractor representatives**
  - **Less hands-on; steering, not rowing**
  - **Work scope changes require contract amendment**
- **Future government leaders may be less likely to oversee personnel in jobs they once held themselves**

RAND

A-76 Cost Comparisons, 30

If the A-76 process results in an increased use of contractor support, different government leadership training needs may result.

With a contracted service, a government director interacts with a contractor representative, as opposed to day-to-day, hands-on interaction with workers at all levels. This distinction is akin to what Osborne and Gaebler (1993) refer to as “steering” (making policy decisions) versus “rowing” (providing services).

Contractors are unlikely to accept substantial increases in their responsibilities without appropriate contract amendment. Government leaders must therefore carefully evaluate when and how they request a major change in their desired service. In light of the legal significance of government-contractor interactions, at Edwards AFB, government employees who remain to oversee IIA were sent to contract training classes.

Increased contracting may also change the career paths of future government leaders. The DoD civil service has often “grown” its own leaders who end up supervising personnel in jobs they once held. This paradigm may become less common.

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RAND

A-76 Cost Comparisons, 31

## ***Most Education and Training Sourcing Is Unrelated to A-76***

- **Education and training are provided by myriad sources, some in DoD, some in other parts of government, some private**
- **Heretofore, A-76 has not generally targeted education and training provision**
  - **NPS, PoM, AFA conducted support A-76s**
  - **Hanscom, Eglin, Space Command, PACAF, Edwards competed training and education administration**

RAND

A-76 Cost Comparisons, 32

Education and training are provided by myriad sources, some within DoD, some in other parts of government, and some private. These sourcing choices have generally been made without A-76 cost comparison.

We have not found many examples of A-76 cost comparisons involving “core” education and training functions. The NPS, the PoM, and the AFA have participated in A-76 competitions involving support functions. Hanscom’s, Eglin’s, Space Command’s, PACAF’s, and Edwards’ A-76s involved the administration and coordination, but not provision, of civilian and military training and education.



## ***A-76 Competitions Can Have Effects Beyond Cost Savings***

- **Lengthy, disruptive process hurts morale, often results in lessened customer service**
  - **But it may be difficult to achieve commensurate savings without A-76**
- **A-76 may result in different demand for training services**
  - **Possible short-run increase, long-run decrease in training needs**
  - **Different leadership challenges**

RAND

A-76 Cost Comparisons, 33

There are considerable concerns with A-76, including its length and adverse effects on employee morale and customer service. These concerns are not, in general, specific to education and training. However, having noted these concerns, there may not be a way for commensurate savings to be achieved without A-76. Indeed, many of the negative comments we heard about A-76 might, in fact, be attributable to dissatisfaction with budget cuts. A-76s are, after all, run to save money.

A-76s may result in different demand for training services. We expect short-run increases in training needs as government employees change jobs. Training demand may drop over the long run because fewer personnel are employed by the government. Training demands may also be different because future government leaders must be trained to effectively oversee contractors. The now-common DoD phenomenon of a long-time government-employed civilian overseeing individuals in a job the long-time employee once held may become less common.



## **APPENDIX: BACKGROUND ON A-76 COST COMPARISONS**

Positions in the federal government are categorized as either inherently governmental or commercial. Activities that are considered to be inherently governmental, such as flying a fighter jet, must be performed by government employees. The Office of Management and Budget says of such functions:

Inherently governmental activities require the exercise of substantial discretion in applying government authority and/or in making decisions for the government. Inherently governmental activities normally fall into two categories: the exercise of sovereign government authority or the establishment of procedures and processes related to the oversight of monetary transactions or entitlements (Executive Office of the President, May 29, 2003, p. A-2).

By contrast, a commercial activity is a function that may be performed by a commercial source. The OMB's Circular A-76 spells out the procedures for comparison of private-sector and in-house performance of commercial activities, referred to as a "cost comparison." Most DoD A-76 cost comparisons have involved support functions like installation services, aircraft equipment maintenance, real property maintenance, logistics, information and communication, acquisition and supply, transportation, computer support and data processing, research and development support, education and training, and commissary services (United States General Accounting Office, April 2002).

When a position (or, more likely, group of positions) is selected for A-76 competition, a series of procedures commences. First, a Performance Work Statement is developed that specifies the services the government wishes to purchase, without specifying exactly how the services are to be provided. The PWS would also state a planned duration of the arrangement (e.g., one year, plus four one-year renewal options). The completed PWS is then transmitted both to government employees and to interested contractors. Government employees develop an in-house bid, called the Most Efficient Organization, which is compared to the best contractor bid.

The lowest bid wins a standard A-76 cost comparison, except a conversion differential is added to the non-incumbent's cost of performance. This conversion differential is the lesser of 10 percent of the MEO's personnel-related costs or \$10 million. "The conversion differential precludes

conversions based on marginal estimated savings, and captures non-quantifiable costs related to a conversion, such as disruption and decreased productivity" (Executive Office of the President, May 29, 2003, p. B-16).

Offsetting the 10 percent advantage that typically accrues to MEOs (government employees are most often the incumbents in A-76 competitions), a 1996 revision of the rules forced MEOs to include a general and administrative overhead charge equal to 12 percent of direct personnel costs (Gates and Robbert, 2000). Laverson (2000) argued the 12 percent overhead rate may be too large. However, prior to promulgation of this rule, many MEOs asserted there to be no general and administrative overhead costs associated with the MEO at all, which seems implausible.

A central rationale for undertaking an A-76 cost comparison is to save money. There is a sizable literature on A-76 cost savings [e.g., Marcus (1993), Tighe et al. (1996), Gates and Robbert (2000), and Clark et al. (2001)]. In fact, substantial savings have been found from A-76 competitions, irrespective of who wins. Most savings emanate from having fewer people perform the work than was previously the case. Gates and Robbert (2000) noted that a variety of labor-saving techniques have been used, including civilianization (replacing military personnel with civilians), organizational restructuring, "multiskilling," reduced work scope, and increased labor availability. DoD estimates long-term savings of around \$85,000 per studied position over five years (Executive Office of the President, July 2003). However, the United States General Accounting Office (GAO) (August 2000) has questioned how much savings are actually achieved for the DoD through civilianization because the military services have not reduced their total end strength when specific functions' military positions have been converted to civilian provision. Instead, the affected military personnel have simply been moved to other positions. If civilians replace military personnel but the number of military billets is not cut, there is a net increase in costs.

To reduce costs, one tactic used by MEOs has been to use lower-grade employees to carry out the work,<sup>1</sup> also referred to as downgrading positions. Under federal personnel regulations, a civil service employee who accepts a downgraded position is entitled to retain his or her former grade and pay for two years, thereby delaying cost savings. Displaced employees, whether because of a contractor or MEO win, are entitled to priority placement in other DoD jobs and receive the right of first refusal to positions for which they are qualified if the contractor wins (United States General Accounting

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<sup>1</sup>See Gates and Robbert (2000) and United States General Accounting Office, March 2001.

Office, March 2001). Robbert, Gates, and Elliott (1997) noted that relatively few DoD civilian workers were involuntarily separated from some form of government employment, at least through the mid-1990s.

DoD usage of A-76 cost comparisons has varied considerably from year to year. As noted by Robbert, Gates, and Elliott (1997), there were several hundred DoD A-76 cost comparisons per year during the Reagan administration. DoD A-76 usage plunged sharply in the early 1990s, including the October 23, 1992, through April 1, 1994, period during which Congress prohibited the DoD from using the A-76 process to convert positions to contract performance. DoD usage of A-76 resumed in the mid-1990s. The DoD completed 339 studies between 1995 and June 2000 (United States General Accounting Office, December 2000).

In 1998, the Federal Activities Inventory Reform Act was enacted. The FAIR Act requires that all executive agencies annually compile a list or inventory of activities that are not considered inherently governmental and are therefore open to competition. Agencies must submit these lists to Congress and make them available to the public. The DoD's 2002 FAIR Act submission said 222,820 of 410,699 civilian commercial full-time equivalents were potential candidates for competition.<sup>2</sup> The DoD plans to compete tens of thousands of these positions in upcoming years (Phinney, 2003, p. 22).

In August 2001, President Bush introduced his management reform agenda. The goal of the agenda is to implement reform that is "citizen-centered, not bureaucracy-centered; results-oriented; and market-based, actively promoting rather than stifling innovation through competition" (Executive Office of the President, 2001, p. 4). The agenda includes five government-wide initiatives; competitive sourcing is one of them.<sup>3</sup>

New A-76 cost comparisons will follow revised A-76 rules promulgated on May 29, 2003. The new rules are broadly similar to traditional A-76 guidelines, but there are several changes worth noting.<sup>4</sup>

First, standard cost comparisons are now to take 12 months or less from public announcement to performance decision (with provision for a waiver for an additional 6 months). This time requirement contrasts markedly with traditional A-76 timetables. Keating's (1997) fiscal year (FY) 1978 through

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<sup>2</sup>See FAIRNET web site. 111,927 positions were excluded from competition under Reason Code A, specific exemption by the agency--i.e., the DoD feels the position is inherently governmental. 16,181 positions were excluded under Reason Code C, exemption by Congress, executive order, or the OMB. 59,771 positions were excluded under Reason Code G, prohibited from conversion to contract by legislation.

<sup>3</sup>The other four are strategic management of human capital, improved financial performance, expanded electronic government, and budget and performance integration.

FY 1994 DoD A-76 cost comparison data had a median cost comparison completion time of 664 days, with the mean being 810 days. Over 10 percent of completed cost comparisons took at least four years to the initial decision. The GAO reports that more recent DoD data indicate that competitions take, on average, 25 months (Walker, 2003).

Second, under the new rules, "direct conversions" are no longer allowed. Previously, if a cost comparison involved ten or fewer civilian positions, there was an option to turn the function over to contractor provision without soliciting an MEO bid. Keating, Camm, and Hanks (1997) studied 1,092 completed Air Force cost comparisons covering FY 1978 until July 1, 1996, of which 239 were direct conversions.

Third, the new rules explicitly segregate PWS and MEO development. It is not allowable for members of the PWS team to be members of the MEO team or vice versa. PWS team members who are not directly affected by the competition may participate on the Source Selection Evaluation Board, but MEO team members cannot (Executive Office of the President, May 29, 2003, p. B-7). The PWS/MEO segregation rule brings A-76 in accord with the Jones/Hill decision in which the GAO concluded that

the Navy's use of the same employee and consultants to develop both the PWS and the in-house management plan for performance by the government's "most efficient organization" (MEO) was contrary to the [Federal Acquisition Regulation] requirement that procuring agencies "avoid strictly any conflict of interest or even the appearance of a conflict of interest" (United States General Accounting Office, May 29, 2002, p. 2).

Fourth, the new A-76 rules mandate tracking of post-competition performance costs, irrespective of the winner. Gates and Robbert (2000) noted that under old A-76 procedures there were "significant limitations with the cost data that are collected before, during, and after an A-76 study. These limitations make it difficult to evaluate whether the personnel cost savings generated by a particular activity examined in an A-76 competition lead to real savings for the DoD budget." Similarly, the GAO noted "limitations in baseline cost data from which to calculate savings, study costs, and other factors make it difficult to estimate savings" (United States General Accounting Office, December 2000, p. 4).

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<sup>4</sup>See also Executive Office of the President, September 2003, Attachment C.

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