We examined the implementation of six completed A-76 cost comparison competitions to address the four questions listed in the first chapter. Our primary focus was on the use of personnel before and after the competition.

SITE SELECTION

We conducted case studies of six functions at four installations. To select the case studies for our analysis, we asked the A-76 representatives in the Army, Navy, Air Force, and Marine Corps to provide us with lists of installations that had completed and implemented an A-76 competition in the past ten years.

We identified candidate sites for our case studies in early 1998. In selecting the activities to be included in our study, we used several criteria.

- We targeted competitions that had been completed relatively recently, and for which the MEO or contract had been in place for at least one year. Recently completed competitions would ensure that most of the key participants in the cost comparison would still be at the installation. On the other hand, it was important that some time had elapsed after the implementation of the MEO or PWS so that we could evaluate the implementation, particularly changes in the use of personnel. Because there was a moratorium on the implementation of A-76 study results in the mid-1990s and a dramatic slowdown in the conduct of studies...
themselves during this time frame, we had few studies from which to choose.¹

• We wanted to include competitions in which the MEO won the competition as well as those in which the contractor won the competition. To the extent possible, we tried to select pairs of studies (one contractor win and one MEO win) in similar functional areas.

• We wanted to examine functions in each service. However, at the time we were conducting our site visits, the Marine Corps had not completed any studies since 1991. Therefore, we were unable to include a Marine Corps study in our analysis.

Having drawn up a list of candidate sites, we contacted the service-level A-76 representative to verify that the original data source from which we were selecting our sites was complete and to discuss whether the candidate sites would be appropriate cases to examine. We then requested a local point of contact in the service command who could put us in touch with an installation-level point of contact to help us set up our visits.

DESCRIPTION OF CASE STUDIES

The unit of analysis for our research is a single cost-comparison competition of a function at a given installation. Throughout this document, we refer to the unit of analysis as a “competition” or a “function.”² We examined six different functions subject to A-76 cost comparison competitions. The six competitions were conducted in three military services: Army (1 competition), Navy (1 competition), and Air Force (4 competitions) at four installations. Figure 2.1 presents basic information about the six case studies below: a description of the function, the winner of the competition, and

¹For a more detailed discussion of this moratorium and historical data on A-76 activity in DoD, see Robbert, Gates, and Elliott, 1997. For information on recently completed DoD A-76 studies, see GAO/NSIAD 99-44.

²Technically, base operating support (BOS) is a multifunction activity. It comprises several functions, such as civil engineering, transportation, and logistics. In spite of this, we refer to BOS as a “function.”
the number of military and civil service personnel staffing the function when the competition began (baseline military and baseline civilian). To maintain confidentiality, we do not identify the installations. Throughout the report, we use the abbreviations noted in Figure 2.1 as a shorthand for referring to the studies. Where we have two competitions of a similar type, we distinguish them by numerals, with #1 referring to the in-house win and #2 referring to the contractor win.

The functions we studied differed widely. Following is a brief description of each.

**BOS #1.** This base operating support competition included parts of five separate functions: civil engineering; morale, welfare, and recreation (specifically, running the on-base billeting facility); supply; transportation; and telephone operations. The contract solicitation was designed so that contractors could bid on any or all of the functions under study. In the end, the most competitive outside bid
was submitted by a contractor who proposed to perform all the functions, but this bid was 17 percent higher than the in-house bid.

**BOS #2.** This BOS solicitation included civil engineering, logistics, and transportation activities. The best contractor bid ended up being 15 percent less than the in-house bid, and therefore won the competition even after accounting for the 10 percent conversion differential.

**Missile Maintenance (MM).** This competition involved missile maintenance services being performed by one command for another as part of an interservice support agreement. The functions subject to competition were for routine missile repair and maintenance, including direct support and general support maintenance (DS/GS). Major repairs and overhauls, such as reparable exchange (RX) maintenance and depot level maintenance, were not included in the competition. The contract bid process for this function was an 8(a) competition, which means that it was directed by the Small Business Administration (SBA). The SBA identified a contractor believed to be capable of doing the work and asked it (and only it) to submit a bid. The contractor lost the competition by only 1 percent of MEO costs, after accounting for both the 10 percent conversion differential and the 12 percent overhead cost inflation factor added to the in-house bid.

**Aircraft Maintenance (AM) #1.** This is the oldest cost-comparison competition included in our analysis, and the one involving the most positions. The original competition for this aircraft maintenance function was completed in 1989. Fortunately, all of the key players were still at the installation when we conducted this case study. The MEO cost was about 9 percent higher than the contractor cost, but the MEO won because of the 10 percent conversion differential.

**AM #2.** This cost-comparison competition involved the consolidation over time of activities conducted at different installations to a single site. This consolidation made it difficult to develop estimates of savings for this function, particularly in terms of the number of workers involved. The contractor won this competition by a tiny margin after accounting for the 10 percent conversion differential and the 12 percent overhead cost inflation factor applied to the in-house estimate.
Telecommunications Maintenance and Operation (TEL). This cost comparison decision was initially in favor of the MEO, but the decision was reversed on appeal by the contractor. The cost comparison inappropriately included some material costs in the contractor bid that were not present in the in-house bid. The function involves maintaining, operating, and monitoring specialized telecommunication equipment. The work requires many employees to have top-secret security clearances. After the completion of this competition, the service headquarters decided to close this facility, concluding that the activities could be eliminated or be performed elsewhere. The service already has eliminated several contract line items (CLINs) from the contract and is in the process of terminating the contract.

CASE STUDY STRUCTURE

Each case study involved document reviews and a wide range of interviews. At each site we requested the following documents:

- Contract solicitation, including the PWS
- Management study, including a description of the MEO
- Cost comparison study and/or the Commercial Activities Management Information Study (CAMIS) record
- Contract file, including any contract modifications (contractor wins only).

In addition, we requested information about the current workforce, such as authorizations, employment rosters, and other details. The nature of this information varied: Some installations kept detailed records of current employment, others did not. Generally, the information on contractor employees was much more limited than information on civil service workers.

We also conducted interviews at each installation with:

- Senior-level and/or intermediate-level commanders or staff managers responsible for the outsourced activity or MEO
- Government managers directly responsible for oversight of the outsourced activity or MEO
• Manpower office representatives
• Government contracting office representatives
• Civilian personnel office representatives
• Civil service employee union representatives
• Contractors' local managers (for contractor wins only).

In nearly every case, interviewees had had some involvement with the cost-comparison competition. In addition, at several installations we talked with current workers. Table A.1 in Appendix A summarizes the interviews we conducted at each installation, their purpose, and their duration.

The interviews were semistructured and followed a fixed interview protocol. The protocol is also in Appendix A.

HYPOTHESES

We began our investigation with four general questions related to the human resource efficiencies observed in competitively sourced activities.

Question 1: How big are the projected personnel cost savings?

As discussed earlier, analyses of historical A-76 data contained in previous studies by CNA reveal that completed A-76 competitions were projected to reduce baseline costs, on average, by 30 percent. A recent GAO study finds substantial expected savings on more recent competitions as well. Whereas previous studies look at total cost savings using CAMIS data, we attempt to isolate the personnel cost savings. Because personnel costs are a large fraction of the total costs for a service function, we do not expect our results to differ substantially from those of CNA or GAO. However, to the extent that cost savings stem disproportionately from personnel costs (as opposed to reductions in other costs), we would expect our estimates of personnel savings as a percentage of baseline personnel costs to be higher than the total cost savings as a percentage of total costs.
Question 2: How are the projected personnel cost savings achieved?

We anticipated that A-76 competitions would generate personnel cost savings in four generic ways. Organizations would use fewer people, downgrade existing positions, pay lower wages and benefits, or substitute capital for labor.³

Using Fewer People

Personnel reductions are an obvious and measurable way to reduce costs. Such reductions can be achieved in several ways: civilianization, multiskilling, organizational restructuring, increased work intensity, increased labor availability, and reduced work scope.

- **Civilianization.** Civilianization is the process of replacing military workers with civilian workers.⁴ In the DoD, both military and civil service workers staff many commercial activities. An underlying assumption of the A-76 process is that cost savings can be achieved by substituting civilian for military labor.⁵

Civilianization can generate savings in two important ways: First, it might be possible to replace the current military workforce with fewer civilian workers; second, an individual military workyear may be more expensive than an individual civilian workyear. Conventional wisdom argues that military workers provide less workyear availability to the function in question because of training, deployment, and daily obligations such as physical training. Moreover, civilians are generally required to have the skills to do the job in order to be hired and tend to stay on the job for a long time. Military personnel on the other hand, often do not have the required skills when they assume a position. In addition, turnover is higher because military personnel must be rotated into and out of duties in

³Similar sources of productivity improvement in A-76 competitions were reported by Handy and O'Conner (1984).

⁴Civilianization may occur for reasons unrelated to cost (e.g., if military personnel are required for other duties). For the purposes of this report, we consider civilianization only from the cost-saving perspective.

⁵There is nothing that explicitly prohibits the MEO from including military workyears. However, we are not aware (either through case studies or data) of any MEO that included military personnel.
overseas areas, at sea, and in special functions such as recruiting or training. The need to continuously train new workers reduces an organization’s efficiency.⁶

Any evaluation of the relative costs of individual military members versus individual civilian workers rests on a large number of assumptions about how each workforce is managed and what happens to the overall structure of the workforce when civilianization occurs at a local level.⁷ Another crucial issue is whether the military positions eliminated through an A-76 competition are actually removed from the DoD workforce or are just used elsewhere. If the authorizations are not removed, DoD does not directly reap the savings from “eliminating” the military position. However, DoD may benefit indirectly from the ability to deploy the military personnel in areas where they can be more productive or in positions that were unfilled.

To the extent that civilianization is indeed an important source of savings, it will be more significant the greater the proportion of military personnel in the baseline workforce. Civilianization is available to both the in-house organization and the contractor. Thus, we have no reason to believe that the contractor would be more or less able to take advantage of the opportunities provided by civilianization.

• **Organizational restructuring.** Organizational restructuring can generate personnel savings by such methods as reducing the layers of management, streamlining work processes, and combining divisions and the required oversight. We anticipated organizational restructuring to be an important source of personnel savings, although we did not know which specific types would be most important. Organizational restructuring opportunities should be available to both the contractor and the in-house organization, and we have no reason to believe that one party has an inherent advantage. A contractor might be able to apply lessons learned from other contracts. Conversely, an in-house organization might experience inertia or a general reluctance to change. Alternatively, a contractor who does not

---

⁶On the other hand, many commanders and supervisors prefer military to civilian labor because military members can work overtime at no additional direct cost.

⁷Gates and Robbert (1998) discuss some of the issues involved in such a comparison.
understand the organizational structure and the work process as well as the in-house organization might be at a disadvantage.

- **Multiskilling.** Multiskilling can reduce the number of required workers by allowing one person to perform roles traditionally associated with two or more occupations. If each role requires less than a full-time worker, permitting one worker to perform them could save a fraction of a work-year. In so doing, multiskilling might also increase the work intensity of the workers who remain. Civil service rules and regulations do not prohibit the use of multiskilling within the government. However, because position descriptions for multiskilled jobs are not standard and because position descriptions are required for each job, government managers interested in using multiskilling may have to go through the process of getting a new job description approved and securing union support. Therefore, we hypothesize that contractors will be better able to take advantage of multiskilling. Government managers will be less likely to identify opportunities for multiskilling and less willing to go through the effort required to establish multiskilled positions.

- **Reduced work scope.** A service provider also might be able to reduce the number of workers relative to the baseline workforce if the scope of work is reduced. Reduced work scope is often associated with a reduction in quality or requirements. Alternatively, work scope might be altered because of changes in mission that are concurrent with the A-76 competition. Ultimately, the work requirements are determined by the PWS, not by the contract bid or MEO. The PWS might intentionally or unintentionally reduce the scope of work relative to the baseline level by eliminating certain activities, reducing quality standards, or eliminating certain work requirements. If the PWS intentionally reduces the scope of work, then both the contractor and the in-house provider should be able to perform the work with fewer people. If the PWS unintentionally reduces the scope of work by omitting a function that is in fact required, it is likely that the contract will

---

8The reduction of work scope in the PWS is discussed by Robbert, Gates, and Elliott (1997), pp. 48–50. The authors report that there can be a tension between command headquarters, which is more inclined to reduce work scope in order to reduce costs, and installation commanders, who prefer an expanded work scope.
be modified to add that function or the MEO will be asked to perform the activity. As a result, unintentional reductions in the scope of work can result in contract cost escalation and possibly escalation in the cost of the MEO.

- **Improving work intensity or labor availability.** Fewer workers would be required if work intensity could be improved. Multi-skilling is one direct way to increase work intensity—if workers have more job responsibilities, they will tend to be busier and have less down time. Another way to increase work intensity is to improve worker motivation. Contractors sometimes argue that government employees are lazy and unmotivated because they know that firing them is difficult. Contractor employees may be motivated to do a good job because they know that they can be fired without the extensive due-process procedures that apply to civil service workers. Additionally, contractors have more flexibility to use contingent rewards such as bonuses, gain-sharing, and profit-sharing. Finally, as suggested by CNA (1996), contractors might have more flexibility to use part-time or temporary workers. This ability could increase work intensity because workers can be called in on an as-needed basis. Contractors might have improved labor availability if they offer less time off (sick time and vacation).

*Downgrading Existing Positions*

Another mechanism for reducing costs is to downgrade existing positions. This downgrade is accomplished either by reducing the required grade and skill level in existing positions or by changing the grade structure of the workforce (e.g., using more helpers and fewer journeymen). Position descriptions for government employees are supposed to be reviewed periodically to ensure that the tasks performed warrant the assigned grade levels; however, assigned grade levels might be too high (or too low) because the tasks actually performed by the individual have changed over time. An A-76 competition provides an opportunity for both the in-house organization and the contractor to evaluate the required skills in view of the work that needs to be performed. Although both are able to downgrade positions, we expect it to be easier for the contractor because the contractor need not be as concerned with the incumbent currently holding a particular position. In addition, the Department of Labor
(DoL) job classification rules for service contractors are often less precise than Office of Personnel Management (OPM) classification standards, which apply to civil service workers. For example, whereas the DoL classification rules have only one type of aircraft mechanic, the OPM classification standards have a separate category (and two levels) for an aircraft engine repairer.

**Paying Lower Wages and Benefits**

Lower wages should be a source of savings only relative to the baseline organization when the contractor wins the study. The government has no opportunity to pay lower wages without downgrading positions because the grade level of the position, the step of the employee, and the location where the work takes place determine wages. The contractor could reduce personnel costs by paying a particular type of worker a wage that is lower than the government wage. However, the Service Contract Act (SCA) places a floor on the wages and benefits that contractors can pay employees.\(^9\) These restrictions vary with the position in question, so that there is one wage and benefit floor for a journeyman aircraft mechanic and another (lower) floor for a lower-skilled aircraft mechanic helper.\(^10\) Although no fixed relationship exists between government wages and benefits and contractor mandated minimums, contractor wages and benefits are generally assumed to be lower than government wages and benefits. Therefore, we expected lower employment costs to be a source of savings in competitions won by the contractor.

**Capital-Labor Substitution**

We expected there to be opportunities for contractors to take advantage of capital-labor substitution in order to reduce personnel costs.

---

\(^9\)The Service Contract Act (41 USC 351 et seq.) requires private contractors to pay wages and provide fringe benefits equal to or greater than the larger of (1) prevailing wage rates (as determined by a DoL survey) for a particular job in a particular area, or (2) wage rates determined in accordance with a collective bargaining agreement. If a collective bargaining agreement is reached during the life of a contract, the direct costs associated with that agreement are generally passed on to the government if the DoL deems the agreement reasonable.

\(^10\)Because these wage floors are determined by surveys of prevailing wages in the local area, they can vary geographically.
Question 3: Are the personnel cost savings real and enduring?

Numerous issues relate to cost savings estimates. How valid are the available data on expected savings? To what degree will expected savings be realized in the long run? Although we did not expect to reach definitive conclusions about these issues in the course of this study, we hoped to learn a bit more about the validity of these concerns.

Projections of savings from future A-76 competitions are generated by calculating the historical average of the expected cost savings as recorded in the CAMIS database and applying that savings rate to estimates of future competitions. Thus, the projections assume that current opportunities for cost savings are similar to those that existed in the past.

The CAMIS savings estimates reflect cost savings from the implementation of the MEO or the contract. These estimates are developed by comparing a baseline cost with the estimated cost of the winning bid. These cost estimates include personnel costs (both direct and indirect). Other costs common to the MEO and contractor operations, such as utilities, facilities, and maintenance, are normally excluded from the cost comparison.

GAO (1990) has expressed concern with the quality of these savings estimates. Among other things, the estimates often fail to account for the costs of retained grade and pay, future wage increases mandated by the OPM or the SCA, or the expected value of contractor bonus payments or award fees. Such costs can persist for many years. Moreover, GAO (1999) has found no DoD-wide guidance as to a method for calculating baseline costs. With the exception of the Air Force, there is no service-wide guidance on this topic either. Ultimately, little consensus exists as to what these numbers mean and whether they can be compared between sites.

Another concern is that CAMIS often only estimates the initial cost savings to be generated by an A-76 competition. Little is known about whether these cost savings are realized or persist over time because, in our experience, components have seldom complied with CAMIS requirements to reflect actual costs during the performance period. New guidance on this subject (Yim, 1999) has been issued.
A GAO (1991) review of an Army contract at Ft. Sill suggests that contract costs can exceed not only the initial bid but also the bid of the losing in-house organization. Comparing the actual contract costs with estimates of what it would have cost the Army to perform the function in-house, the GAO concluded that in-house performance would have been substantially less costly. It attributed the higher contractor costs to contractor employee pay increasing at a faster rate than that of federal employees and to higher-than-expected contract administration costs.

Contract costs also can escalate if the contractor requests additional payment for work that was not specifically stipulated by the contract. Government workers often complain that contract costs escalate because contractors underbid. Contractors often claim that contract costs increase because the initial PWS was inadequate (see Robbert, Gates, and Elliott, 1997). While such cost escalation is easily identified because it is recorded in the contract file, it would not be reflected in the CAMIS records upon which the cost savings estimates are based.

When the PWS reduces the scope of work relative to the baseline organization, there is a particular danger that the estimated cost savings will not be achieved or sustained. The scope could be increased again after implementation when the managers realize the implications of the reduced scope. This cycle could lead to an increase in the cost of both the MEO and the contract. Alternatively, the work might be absorbed by other functions. In this case, the cost increases would be hidden in the budgets of that function and the cost savings for the competition would be overestimated.

Our previous research suggests that a lack of follow-up also can affect the estimates of the cost of MEO performance (Robbert, Gates, and Elliott, 1997). For example, grade creep, wage increases, or inflation in the number of in-house workers may increase the costs of the MEO.

**Question 4: Could the savings be achieved outside the A-76 process?**

There are widespread concerns that DoD will be unable to complete the targeted number of competitions in the required time frame.
Since an analysis of historical data (see Tighe et al., 1996) suggests that cost savings are generated through competition both for MEO and contractor wins, we considered whether a review of past competitions could identify strategies to improve workforce efficiency that could occur without an A-76 competition.

DoD has a long history of conducting A-76 competitions, and it is useful to understand the source of the efficiency improvements generated through the previous competitions in order to determine whether lessons exist that could be applied to activities within DoD that are not subject to competition for one reason or another. Few have conducted follow-up studies to understand the source of those savings generated by competitive sourcing or to apply those lessons more broadly. Among the few examples of the latter are RAND studies from the 1970s that attempted to draw lessons learned by comparing outsourced activities at Vance Air Force Base, OK, with similar activities at Reese Air Force Base, TX (Paulson and Zimmer, 1975; Shishko, Paulson, and Perry, 1977). This research concluded that DoD could save money by applying several contractor management principles observed at Vance at other installations. A Logistics Management Institute study has also highlighted productivity improvements motivated by competition (Handy and O’Conner, 1984). Interestingly, the notion of deriving lessons learned and applying them in activities not subject to competitive sourcing has not been revived in the current environment.

As discussed above, some activities will never be subject to the A-76 process, either because they are inherently governmental or because, although commercial, they are important to national defense and cannot be outsourced. Even for activities slated for a cost comparison, the study may not be initiated in the near term, and the government could save money by initiating some of these changes in activities that are not immediately subject to competition.11

---

11A-76 competitions take, on average, approximately two years to complete. Provisions within the FY 1991 and all subsequent Defense Appropriations Acts have required that competitions not completed within two years (four years for a multifunction study) to be cancelled. Although this requirement might provide an incentive for speeding up the competitions, it may also increase the cancellation rate. Service representatives counter that they have some measure of control over the cancellation rate, and that if top level management is behind the A-76 process, more competitions will be completed. While it is impossible to quibble with this logic, it is also true that
Through interviews we tried to identify whether there was something special about the A-76 process that generates savings that could not be achieved without such competition and to discern ways in which cost savings could be achieved in functions that are not under study.

ANALYSIS AND SOURCES OF INFORMATION

The analysis relies on two primary sources of data: A-76 competition documents and interviews. We culled the documents for data and factual descriptions. In most cases, we obtained the CAMIS record and the management study documents before our site visit. We gathered other documents during site visits. The interviews provided a context for the data as well as information that was not available in the documents.

Magnitude of Personnel Cost Savings

As a first step in our analysis, we constructed a measure of the expected initial personnel cost savings from the A-76 studies. Information on the magnitude of the cost savings comes largely from the document review. The documents contain detailed information about the baseline number of personnel and the estimated cost of the baseline workforce, position by position. In the case of MEO wins, the documents contain similarly detailed information about the proposed in-house workforce. On the basis of this information, we were able to construct rough estimates of the magnitude of the personnel-related savings.

Developing a measure of personnel cost savings that we could use across all competitions, whether won by the contractor or the MEO, was a major challenge. To the extent possible, we have isolated the personnel costs and related overhead costs and consider those only when calculating the savings. Thus, our savings estimates reflect personnel cost savings achieved through the A-76 process as a per-

management cannot control all the factors contributing to cancellation. In particular, if local managers are opposed, they may be able to sabotage the process.

These estimates are similar to the estimates of expected initial cost savings found in CAMIS and in other analyses. Later, we consider whether these saving were achieved and whether they endure over time.
percentage of baseline personnel costs. The personnel cost savings percentage estimates reflect the cost reduction achieved in the first year of the contract or MEO implementation. We base the calculations on current (at the time of the A-76 competition) dollars.

Our first step in calculating the personnel cost savings percentage was to develop an estimate of the annual cost of personnel performing the function before the A-76 study. We refer to this as the baseline cost. Baseline personnel cost estimates were calculated using information contained in the cost study documents and include direct personnel costs such as wages, benefits, and other pay, as well as indirect personnel costs such as overhead associated with the baseline organization.

Alternatively, we could have focused on the total costs of performing a function when calculating the percentage savings. We did not do so for two reasons. First, our research sponsor has a specific interest in personnel-related phenomena. Second, nonpersonnel costs (material and equipment costs and the costs of reimbursables) are not treated in a consistent way in these cost comparison studies. Sometimes the government provides the materials and equipment and their cost are omitted from the competition; sometimes, the government provides them but their costs are included. In other studies, the contractor is required to provide the materials. On occasion the arrangement is something in-between. The lack of standard practice on this issue can be the source of confusion, even among those intimately involved in the process. For example, in the TEL competition, the initial decision was for the MEO. The contractor won on appeal, because the contract bid was required to include materials costs that were left out of the in-house bid.

In most cases, management study documents contained cost information. However, the TEL competition contained staffing but not personnel cost information. Therefore, we had to estimate the personnel cost using detailed information on the baseline organization staffing along with cost estimates for military and civil service personnel contained in Gates and Robbert (1998).13

---

13 The estimates were adjusted based on differences between the predicted and actual MEO costs.
We did not simply use the cost savings estimates as reported by the installations. In several cases, we modified those estimates based on other information in the documents. Specifically, we excluded *authorized* positions that were not filled and were scheduled for elimination.

Our baseline personnel cost estimates include general and administrative overhead charges (as indirect costs) if such charges were applied to MEO personnel costs during the competition. Before 1996, installations had discretion as far as what overhead rate to apply and most included no indirect overhead costs in the MEO bid. In 1996, the rules changed and installations were required to add an overhead charge of 12 percent of MEO personnel costs to the total MEO bid.\(^\text{14}\) If the in-house bid has an overhead personnel charge, then the same percentage rate was applied to the baseline personnel costs to calculate total baseline personnel costs.\(^\text{15}\) The 12 percent rate was applied in the TEL and MM calculations.\(^\text{16}\)

Once we estimated the baseline personnel costs, we estimated the expected annual personnel costs for the first year of the MEO or contract performance as reflected in the MEO or contract bid. For MEO wins, MEO expected personnel costs estimates were readily available from the cost-comparison study documents. These costs included the direct personnel costs plus the personnel overhead charge, if applicable, plus any transition costs\(^\text{17}\) (amortized over the entire performance period). In contractor wins, we calculated total contractor personnel cost by taking the contract price, subtracting any direct materials cost, adding any contract monitoring and one-time transition costs (amortized over the life of the contract), and...

---

\(^\text{14}\)See GAO/NSIAD-98-62.

\(^\text{15}\)The inclusion of the 12 percent overhead charge has no impact on the estimate of cost savings as a percentage of baseline personnel costs when the in-house bid wins because it is applied to both the baseline personnel cost estimate and the in-house bid. In cases where the contract bid wins, the application of the 12 percent overhead charge to the baseline personnel cost will inflate the cost savings estimates.

\(^\text{16}\)Thus, the TEL competition is the only one for which the application of the 12 percent overhead charge to baseline personnel costs will influence the initial savings estimates. We report the savings estimate excluding these overhead charges in a footnote.

\(^\text{17}\)These transition costs refer to the costs associated with implementing the MEO.
subtracting the tax advantage that accrues to the government.\textsuperscript{18} This information is available from A-76 competition documents.\textsuperscript{19} The total contractor personnel cost thus provides a good estimate of the effective cost of contractor personnel to the government after considering the contractor’s profit, monitoring costs, and the tax advantage.

With personnel cost estimates for the organization before and after the A-76 study in hand, our final step was to calculate a cost savings percentage. To do this, we took the baseline personnel costs, subtracted the MEO or contractor personnel costs, and then divided the difference by the baseline personnel costs.

We could not follow this estimation procedure when analyzing the savings generated by the AM #2 competition. This function involved the consolidation of activities performed at several installations by a mix of contract and government employees. The management study did not include detailed information on the broad “baseline organization,” just on the baseline organization of the installation that was submitting the MEO bid. As a result, we had to rely on savings estimates found in the CAMIS record. To calculate percentage savings, we divided the savings estimate by the estimate of baseline costs as reported in CAMIS. The PWS focused on the provision of labor service. The government provided all supplies and equipment. Therefore, the savings estimates reflected in CAMIS should closely mirror personnel cost savings.

In addition to estimates of personnel cost savings, we also calculated the percentage savings in the number of personnel billets. This calculation followed the same procedures described above, using the number of personnel billets in place of personnel cost estimates.

\textsuperscript{18}Contract performance provides the contractor with income that is subject to federal income tax. Unless the contractor is a tax-exempt organization, an estimate of these taxes is deducted from the net cost to the government.

\textsuperscript{19}The contract cost does not include the 10 percent differential or “disadvantage” that the contract bid must overcome to win the competition against the MEO.
Sources of Savings

The information on the sources of savings stems from a combination of document review and interviews. For in-house wins, the savings sources were reasonably easy to identify from the documents. For example, we observed when military positions were civilianized or eliminated, or when positions were downgraded. These management study documents also described major organizational restructuring efforts. Where possible, we also analyzed the difference between the DoL wage rates (minimum contractor wages mandated by the Service Contract Act) and the civil service wages for that region.

The management study documents often present the MEO and baseline organization personnel side by side with notations as to the positions that have been modified or deleted from the organization. For contractor wins, we had to rely more heavily on interview data because the documents reviewed did not contain information on personnel use.

Persistence of Savings

We relied on document review and interviews to evaluate the persistence of the personnel cost savings. For contractor wins, we examined all contract modifications, highlighting those that led to an increase or decrease in contract costs. In each of the competitions examined, the contractors and the MEO submitted bids for five performance periods, where a performance period is equal to one year. The bids for each performance period incorporate expectations about inflation, changes in workload, and other factors that might affect the cost over time. Thus we were able to compare the bid for a particular contract performance period with the actual cost of the contract for that period. In addition, we examined the explanation for those changes found in the contract modification.

For MEO wins, we were able to obtain information only on authorizations by position and grade level. Although this availability does allow for a reasonable comparison between the MEO bid\textsuperscript{20} and the

\textsuperscript{20}In each case, the MEO bid the same number of personnel for all five performance periods, so we compare that number of slots with the current personnel slots.
current in-house organization, we must point out that personnel authorizations do not fully reflect personnel costs. In particular, this approach did not allow us to evaluate the cost impact of retained pay, step increases, or staffing problems. For MEO wins, we thus examined the current authorization list and compared it with the number of authorizations bid in the MEO. We report explanations for those changes, which either were found in the CAMIS record updates or were discussed in the interviews.

Other Ways to Improve Government Efficiency

Information on whether it would be possible to achieve these types of efficiencies outside of the A-76 process was derived almost exclusively from interviews, and the results in this section should be viewed with appropriate caution.