

HOW OMB CIRCULAR A-76 AFFECTS THE COST AND QUALITY OF MOTOR VEHICLE MAINTENANCE

Office of Management and Budget (OMB) Circular A-76 directs the federal government to use commercial sources of goods and services wherever appropriate and cost-effective. Although A-76 has many provisions, it mandates two major changes: (1) government agencies and commercial contractors compete for government business in fixed-price bidding and (2) performance work statement control (PWSC) procedures set performance standards for contracted work and financial penalties for contractors whose performance does not measure up. As far as possible, A-76 dictates results-oriented task performance: as a result, suppliers can largely select their own methods for performing the work described in the statement of work (SOW). A-76 specifies surveillance of contractor performance to assure compliance with performance standards. Noncompliance is judged by random sampling methods and leads automatically to deductions from government payments.

How has A-76 affected the cost and quality of services provided to the government? To help answer this question, a recent Rand study assesses the effects of A-76 implementation in the Air Force, the service having most experience with A-76 procedures. The study compares motor vehicle maintenance at five bases that have carried out cost studies under A-76 procedures with motor vehicle maintenance at two bases that have not. The study attempts to distinguish how the two major provisions, competitive fixed-price bidding and PWSC procedures, each contributes to changes in the cost and quality of motor vehicle maintenance. Data are drawn both from personal interviews and from administrative reports generated for normal management purposes at the study sites.

IMPACT ON COSTS

The study's findings accord with claims that A-76 procedures lower the cost of maintaining motor vehicles. Both interviews and administrative data suggest that A-76 leads to (1) very large reductions in the number of employees on each base who devote their time to motor vehicle maintenance and (2) substantial differences in the cost per mile of operating the administrative fleets of Air Force bases. However, because of the small number of bases studied, the findings are not conclusive.

Figure 1 presents the average cost per mile of the administrative fleets at seven bases during summer months (to minimize the effects of inclement weather, which can differ markedly by region). Each bar indicates the average costs for bases within that group. The figure shows that the average costs of maintaining the administrative fleet are lower for organizations operating under A-76 procedures than for those operating under other procedures.

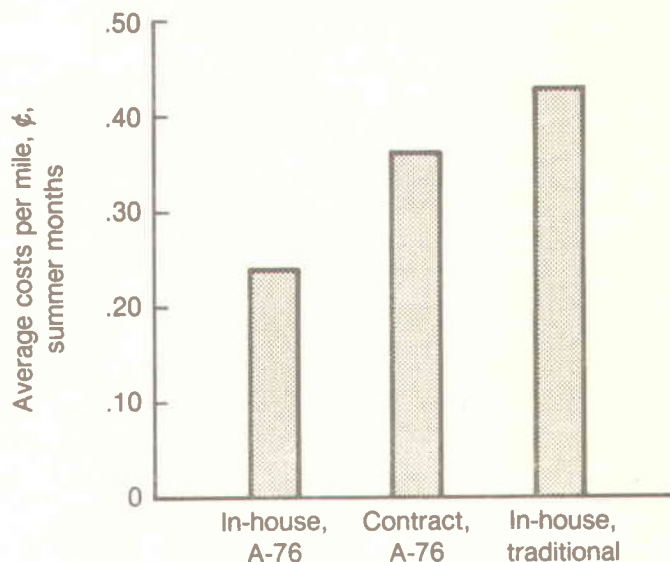


Fig. 1—A-76 procedures reduce the average costs of maintaining administrative fleets

Figure 1 also shows lower per-mile costs for in-house A-76 maintenance than for contract A-76 maintenance. This pattern suggests that A-76 lowers the costs of maintaining motor vehicles less through PWSC contracting procedures than through competitive bidding.

IMPACT ON QUALITY

Interview data lead to no simple conclusions about how A-76 procedures affect quality. Some Air Force personnel comment that contractors with a short time horizon seek to do the absolute minimum of maintenance necessary. In particular, some report problems with deferred maintenance; however, others report that they have not

experienced such problems or have successfully persuaded contractors to respond to them.

Vehicle out-of-commission (VOC) rates, which most maintenance managers consider adequate indicators of maintenance quality, tell a clearer story. Figure 2 shows the percent of hours that administrative vehicles were VOC during summer months at seven bases. Each bar indicates the average for the bases in that group. The VOC rates for administrative vehicles reveal approximately equal performance levels for traditional in-house and contract A-76 maintenance organizations, but higher VOC rates (i.e., lower quality levels) for in-house A-76 operations.

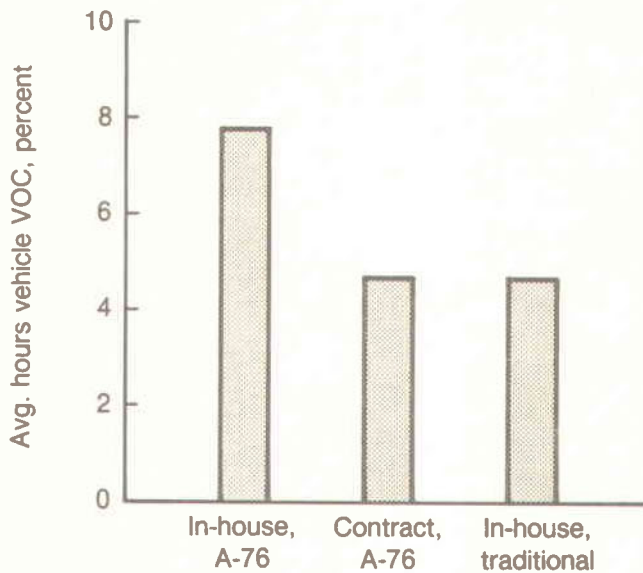


Fig. 2—Administrative fleets maintained in-house under A-76 procedures have the highest out-of-commission (VOC) rates

Comparing Figure 1 with Figure 2 suggests that fairly small reductions in the VOC rate appear to be bought with rather large increases in the cost per mile of vehicle maintenance. The comparison also indicates that the lower quality of vehicle maintenance at in-house A-76 operations may offset the very low cost there. By contrast, the contract A-76 maintenance organizations achieved lower costs than the traditional in-house operations while maintaining comparable quality.

DOES A-76 FAVOR CONTRACTORS?

At the time of this study, commercial contractors had won 58 of 60 bid competitions. It remains unclear why in-house operations so frequently lose, especially since a contractor must underbid the in-house competition by at least 10 percent to win the contract. Certainly Air Force and civilian government personnel are strongly motivated to keep motor vehicle maintenance in house. Some respondents claim that the higher cost of federal benefits—sick leave, vacation, military reserve duty leave—makes the Air Force uncompetitive with civilian contractors. In addition, civilian contractors have greater flexibility in staffing and wage levels. However, contractors also have expenses that government organizations lack, such as profit margins. The government's lack of experience in bidding may contribute to the high loss rate.

PROBLEMS IN IMPLEMENTING A-76

At the two Air Force bases where work has remained in house after a cost study, the terms of A-76 appear to be selectively enforced. The in-house organization may not receive all the resources on which it based its bid, may be expected to perform maintenance tasks not specified in the SOW, and may have to meet general performance criteria (such as customer satisfaction) not stipulated by PWSC procedures.

When commercial contractors win an A-76 competition, different problems arise. Some Air Force respondents report that contractors defer maintenance to keep VOC rates artificially low. SOWs are sometimes ambiguous, incomplete, or insufficiently detailed. Contractors may balk at performing work inadvertently omitted from the SOW or charge high prices for additional work. Evaluating the quality of work, critical to A-76 success, can prove difficult for a variety of reasons: the crudeness of random sampling techniques, a lack of qualified inspectors, and an inadequate mechanism for documenting customer complaints.

Many of the problems with commercial contractors are being resolved with relative ease as contracts come up for renewal. The problems of implementing A-76 procedures at in-house organizations appear more difficult.

Rand's Defense Manpower Research Center, established in 1976, conducts interdisciplinary research into the manpower problems facing the armed services. The Center's primary sponsors are the Office of the Assistant Secretary of Defense for Force Management and Personnel, and the Office of the Assistant Secretary of Defense for Reserve Affairs. The research summarized in this brief was sponsored by the Office of the Assistant Secretary of Defense for Force Management and Personnel. For more information about the research summarized here, see R-3131-MIL, *A Pilot Study of the Impact of OMB Circular A-76 on Motor Vehicle Maintenance Cost and Quality in the U.S. Air Force*, Ross M. Stolzenberg and Sandra H. Berry, February 1985, or contact Ms. Berry, The Rand Corporation, 1700 Main Street, P.O. Box 2138, Santa Monica, CA 90406-2138, (213) 393-0411.
