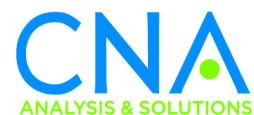


# **A Review of the Navy's Approach to Meeting the Post-Competition Accountability Requirements in OMB Circular A-76**


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Approved for distribution:

April 2009

A handwritten signature in black ink that reads "Alan J. Marcus". The signature is written in a cursive style with a horizontal line underneath the name.

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## Executive summary

The Office of Management and Budget (OMB) Circular A-76 (the Circular), which provides the policies and procedures for conducting public-private competitions, was revised in 2003 to expand the requirements for post-competition accountability (PCA). It now requires federal agencies to monitor the cost and performance of all service providers—contractor or Most Efficient Organization (MEO)—for all performance periods and to report this information to OMB.

In addition, two other PCA requirements have been imposed. First, in April 2007<sup>1</sup> OMB issued PCA guidelines requiring the independent validation of a sample of completed competitions to assess the accuracy and completeness of the cost and performance data and to evaluate the effectiveness of post-competition management actions. Second, Section 647(b) of Division F of the Consolidated Appropriations Act of FY 2004 (P.L. 108-199) established a government-wide requirement to report to Congress on competitive sourcing efforts for the prior fiscal year.

While new legislation<sup>2</sup> and the change in Administration means the future of A-76 competitions is unclear, the need for PCA remains. Even if the Navy were to no longer conduct traditional public-private competitions, it must still manage the providers from past competitions and report on cost and performance regularly. Further, a shift to the use of other efficiency alternatives such as High Performing Organizations (HPOs) or Business Process Reengineering (BPR)

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1. Executive Office of the President Memorandum entitled “Validating the Results of Public-Private Competition,” 13 April 2007.
  2. Section 737 of the Omnibus Appropriations Act for FY 2009 (P.L. 111-8) establishes a 1-year moratorium on new public-private competitions under OMB Circular A-76.

efforts will also require some degree of post-implementation tracking to ensure that service providers are held accountable for their cost and performance, and that managers have the data they need to assess the outcomes of these alternatives to competitive sourcing.

## **Purpose**

Recognizing this, the Navy asked CNA to examine the approach and methods used by the Navy to meet the various PCA requirements, to identify variations in the Budget Submitting Offices' (BSOs') tracking of costs and performance, and to recommend needed changes.

## **Approach**

We examined PCA by (1) reviewing OMB, DoD, and Navy policies and procedures on PCA; (2) conducting 13 case studies of selected completed Navy public-private competitions; and (3) evaluating the Navy's system used to capture cost and performance information.

Our analysis used a case study approach that evaluated data from 13 competitions. Our sample was not random. It was heavily skewed toward MEO decisions with 11 MEO decisions and only two contractor decisions. Furthermore, to identify how the Navy's PCA process could be improved, several of the competitions in our sample were chosen because of their value in highlighting implementation issues. Accordingly, the results and findings cannot be interpreted as being representative of the entire population of Navy public-private competitions.

## **Conclusions**

### **The Navy has a “separate but similar” approach to PCA**

The Navy has separate systems for monitoring the performance of its contracts and MEOs. Contracts awarded as a result of a public-private competition are monitored using its pre-existing system for contract administration. The Navy has established a separate, comprehensive, Department-wide system to monitor MEO implementation.

## **The Navy's systems exceed OMB's reporting requirements**

This approach exceeds both OMB's and DoD's requirements to monitor and report the cost and performance results of competitive sourcing in that it also requires managers to validate workload and monitor full-time equivalent employee (FTE) levels.

## **PCA has improved significantly since 2003**

Our earlier research on A-76<sup>3</sup> found that managers were not holding MEOs accountable for meeting the cost and performance requirements in their bids. At that time, none of the Navy MEOs we reviewed routinely tracked MEO cost or performance. Our review of the 11 MEOs in this study indicate that all of them are documenting their costs on an annual basis and most are monitoring performance.

## **Some managers are not holding MEOs accountable**

In reviewing the 11 MEOs in our sample, we found instances where (1) neither quality control nor quality assurance were being performed; (2) performance data were not reported or evaluated; and (3) adjustments or corrections were not made when cost, staffing, or performance requirements were in danger of not being met. Many managers focus on monitoring and assessing FTE levels and workload and labor hour distributions, rather than on costs or performance levels. Both types of monitoring are necessary for successful operations.

## **Most of the inconsistencies between data elements in the Department of Defense Commercial Activities Management Information System (DCAMIS) and the Navy Database of Competitive Sourcing (NAVDOCS) were the result of several overarching issues, though some true data errors were found**

For the 13 competitions in our sample, there were 1,470 comparable items. Our analysis found 320 items where the data in DCAMIS were

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3. Clark, F., et. al., *Long-run Costs and Performance Effects of Competitive Sourcing*, Feb 2001, CNA, CRM D0002765.A2

inconsistent with the data in NAVDOCS. The vast majority of these inconsistencies, however, were due to four overarching issues, only 49 are likely true errors.

### **Little guidance was available on how to proceed when contracts or MEOs conflict with other Navy initiatives**

We encountered several instances where functions were being competed or implemented at the same time as other potentially conflicting Navy initiatives. As a result, MEOs were not implemented or they were significantly changed. This created difficulties in reporting cost and performance data. Little guidance is available on how to prevent or resolve these conflicts.

### **Insufficient training in performance monitoring**

While the Navy provides training on how to conduct annual PCA reviews, little training has been provided on how to monitor performance on a day-to-day basis. This type of training is routinely provided to contract managers and quality assurance evaluators throughout DoD and should be available to those monitoring MEOs.

### **No guidance is available on the validation of MEO cost and performance**

OMB's requirement to validate a certain percentage of MEOs will require additional guidance. No guidance exists at the OSD level and, consequently, the Navy level, though the Navy is providing some MEO validation when Post-Competition Accountability Reports (PCARs) are performed by independent third parties.

## **Recommendations**

We identified several actions that the Navy can take to improve PCA and fulfill OMB's validation requirements. Our recommendations, which are described in more detail in the body of the report, include the following:

- Assurance that cost data are adjusted for each performance period is needed.
- Performance accountability should ensure that all services are covered and managers use cost and performance data in daily operations. Corrective actions should be taken when needed.
- Training in performance monitoring is needed.
- Particular attention needs to be paid to the inherent inconsistencies in the NAVDOCS and DCAMIS data to prevent incorrect conclusions from being drawn. Any true errors we uncovered should be corrected.
- Guidance is needed in three areas—validation of MEO cost and performance; addressing potential conflicts in management initiatives; and determining and using the appropriate number of quality assurance evaluators (QAEs).
- Improve cost visibility by establishing separate budgets and accounting codes to MEOs.



# Introduction

## Background

Whether a public-private competition results in a contract or performance by the government's MEO, or whether the government elects to implement an HPO<sup>4</sup> or other efficiency alternative, performance and cost monitoring is critical. If there is no monitoring, it is impossible to know whether the government's decision was a good one or whether the resulting service is being performed effectively and efficiently.

In the past, contract performance was regularly monitored for cost and compliance with the terms of the contract, but MEOs received far less scrutiny. This resulted in two important concerns. First, there is concern that government MEOs are not held to the same standards as contractors. Second, there is concern that the potential savings identified at the time of competition are not materializing in the long term, regardless of the service provider.

To address these and other concerns, OMB Circular A-76 was revised in 2003 and now includes requirements for PCA. The changes require agencies to monitor cost and performance of all completed public-private competitions, thereby holding agencies responsible to

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4. An HPO is a results-driven organization created to deliver the best possible services. It establishes incentives for high performance and accountability for results, while allowing more flexibility to promote innovation and increased efficiency. Specifically, the HPO is held accountable for performance objectives that include the following: improving customer satisfaction; providing high quality, cost-effective services; enhancing the ability to respond to the rapid rate of technological change; implementing a common, open, integrated system for program delivery; and providing complete, accurate, and timely data to ensure program integrity.

taxpayers for the results achieved from public-private competitions. The revisions also ensure that government managers have the information needed to hold public or private service providers accountable for their costs and performance levels, and they allow OMB to assess the continuing results of competitive sourcing across the Federal Government.

The Circular sets out six specific PCA requirements for all executive agencies:

- Posting best practices and lessons learned on the “Share A-76” website<sup>5</sup>
- Creating and maintaining a database that tracks the implementation of A-76 competitions
- Submitting a quarterly report to OMB detailing the progress of completed competitions
- Monitoring the actual cost and performance of the selected service provider
- Exercising option years of performance and follow-on competitions based on the cost and performance of the selected service provider
- Terminating the selected service provider based on poor performance

The last three are of particular concern to the Navy.

In addition to these Circular requirements, two additional requirements have been imposed. First, Section 647(b) of Division F of the Consolidated Appropriations Act of FY 2004 (P.L. 108-199) established a government-wide requirement for each executive agency to report to Congress on its competitive sourcing efforts for the prior fiscal year. OMB issued guidance on 15 October 2004, in a memorandum titled “Report to Congress on FY 2004 Competitive Sourcing

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5. The Share A-76 website (<http://sharea76.fedworx.org/sharea76/home.aspx>) is a site used by DoD to share information and lessons learned on competitive sourcing.



Efforts,” detailing how agencies are to report their data to OMB for consolidation into a government-wide report to Congress (commonly referred to as the “647(b) Reports.”)

Second, in April 2007 OMB issued additional PCA guidance on validating the results of public-private competitions.<sup>6</sup> This guidance requires agencies to (1) track and record actual cost and performance information and document PCA actions (e.g., variances and modifications); and (2) independently validate a sample of completed competitions to assess the accuracy and completeness of the cost and performance data and the effectiveness of post-competition management actions.

In the Defense Department, OSD is ultimately responsible for ensuring compliance with these requirements. The Navy is required to comply with the Circular and applicable laws, but it must follow the implementing guidance issued by OSD and report its PCA results to OSD who, in turn, reports it to OMB. To date, neither DoD nor the Navy has issued implementing guidance for these requirements.

## PCA defined

PCA is the term OMB uses to describe the tracking and accountability activities that should take place after the performance decision is made in a public-private competition. PCA provides transparency into the competitive sourcing process by (1) tracking the execution of the competitive process from the start date to the end of the last performance period; and (2) monitoring actual cost and performance levels of the selected service provider for all performance periods.

It is important to note that at this time, OMB’s use of the term does not include workload or FTE tracking and/or accountability. This is a critical omission because, without information on workload or FTEs, the cost data can be misleading. For example, cost data on a performance period could indicate that actual costs are less than

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6. Executive Office of the President Memorandum entitled “Validating the Results of Public-Private Competition,” 13 Apr 2007

expected costs. But when data on workload are taken into consideration, it could be that the actual costs per unit of workload are greater than the expected costs per unit of workload.

Effective PCA requires a cradle-to-grave approach and must be integrated into an organization's management practices. Its main focus is the tracking of actual costs and monitoring the performance of a selected service provider and the process of holding the service provider accountable for cost control and satisfactory performance. The objective of PCA is to ensure that public-private competitions achieve the savings and performance results expected at the time of the performance decision. PCA must be structured to ensure that performance and actual costs are *compared to those upon which the performance decision was based* regardless of the selected service provider.

PCA includes the recurring, continuous monitoring of a selected service provider's costs and performance to ensure that the Letter of Obligation (LOO) or contract obligations are being met. PCA is not a one-time audit review by an independent organization of the selected service provider's costs and performance, and it is not limited to review of a selected source (i.e., MEOs, contractor).

## Purpose

This report examines and evaluates the approach and methods used by the Navy to meet the PCA requirements. It focuses on how the Navy and its BSOs are monitoring, or tracking, actual costs and performance. It also focuses on how selected service providers are being held accountable as required by the Circular.

The report examines the Navy's PCA procedures—the methods used to monitor, collect, and report cost and performance information for selected service providers—and it looks at how the Navy can improve its procedures. Accordingly, it uses a case study approach with a non-random sample to isolate issues that have arisen with respect to Navy PCA. Specifically, the focus is on the following questions:

- Is the Navy complying with the PCA requirements for tracking selected service provider costs and performance?

- Are MEOs and contractors being held similarly accountable for costs and performance?
- Is there variation in BSO-level guidance, procedures, or practices on PCA? Is there additional variability in how costs and performance are being tracked?
- What can the Navy be doing differently to better track post-competition costs, performance, workload, and FTE data? This includes an evaluation of how their guidance and data systems could be improved, how the data gathered are being used to manage and improve their systems, and the sufficiency of their PCA training.
- Are there best practices from Navy BSOs or other DoD Components that should be used by the Navy overall.

## Approach

### Four-phased process

To answer these questions, we examined the Navy's PCA practices using a four-phased process. Specifically, we

- examined OMB, OSD, and Navy policies and procedures on PCA to identify PCA requirements and guidance. This included a review of the Navy's PCA training.
- reviewed BSO-level guidance and procedures on PCA.
- conducted case studies of 13 public-private competitions to document how these requirements and guidance were being implemented. This included interviews at the BSO level. We visited installations to interview local officials and collect PCA data.
- examined the Navy's system for collecting and reporting cost and performance data. This included meeting with OPNAV N124's (Manpower Optimization Branch, Commercial Services Management Program Office) support contractor. It also involved evaluating the consistency between the data in the Navy's system with that in OSD's system.

A more detailed description of our methodology can be found in appendix A.

### **Small, non-random sample**

The competitions chosen for the sample used for this report were not chosen based on random sampling but were hand picked to be case studies. The Navy's goal was to find case studies from various BSOs and case studies that would highlight some of the issues that had arisen with respect to PCA. Our findings, then, necessarily reflect those issues.

This report was conducted in two phases. During the first phase, our initial criteria for selecting case studies was to identify two competitions per BSO that reflected both MEO and contractor performance decisions. We examined five competitions using this criteria. During the second phase of our research, however, we examined eight competitions that resulted in MEO decisions. We increased the number of MEO decisions in our sample because the ratio of agency to contractor performance decisions during the post-2000 time period was heavily skewed toward MEO decisions. The second set of competitions were picked, in part, because of the problems the sites had with fulfilling the PCA requirements.

In addition to being non-random, our sample of case studies is also quite small. It included competitions from eight of the 23 Navy BSOs. We feel that our sample provides enough variation by BSO to capture the most salient differences among them. However, it is unlikely that it captures the full range of variation among all BSOs in the population. Furthermore, for the same reasons, it is unlikely that we have captured all the possible variations that might exist between competitions within a BSO.

Thus, our small sample represents this attempt to (1) evaluate any variation by BSO; and (2) highlight interesting issues related to PCA. In no way was this sample intended to be representative of the full population of competitions within a BSO or of the total population of Navy competitions. Therefore, the results and findings cannot and should not be interpreted as being representative of the full population of public-private competitions in the Navy.

## **Pre-2003 data**

None of the case studies used in our analysis were completed under the revised Circular. At the time of our review, no standard competitions had been completed using these requirements. Regardless, our findings should provide insight into what issues the Navy should focus on once the 2003 revisions are fully incorporated into competitions. Therefore, the existence—or lack thereof—of LOOs in the case studies should not be considered a finding, but rather a reflection of the pre-2003 announcement date of our case studies.

## **Problems faced by MEOs with competing Navy management initiatives**

Another issue with our sample was that we found certain MEOs faced significant problems if they were implemented at the same time as another Navy management initiative. This highlighted a problem not with the specific MEOs, but with a lack of guidance at the OSD level, and consequently the Navy level, on how installations should deal with this issue.

Three of the 11 MEOs we examined came on line at the same time as another major Navy management initiative, (e.g., the Navy's Revolution in Training Initiative). We found that in implementing the competing initiatives, the management initiative, not the establishment of the MEO, took precedence. As a result, the installations involved were unable to monitor the MEOs as originally contemplated. As a consequence, they did not monitor performance, though in one case, workload was monitored as a proxy for performance. The installations did, however, attempt to track FTEs and MEO costs.

## **Report organization**

The remainder of this report provides a summary of our selected competitions. This is followed by a discussion of the Navy's approach to PCA and how it compares to that of other DoD Components. We then analyze each of the major elements of PCA (cost and perfor-

mance). Next, we discuss the importance of workload and FTE monitoring in developing an accurate assessment of cost and performance results. We then follow with a section that looks at the consistency of data between NAVDOCS and DCAMIS. Lastly, we make our final conclusions and recommendations.

## Summary of selected competitions

The 13 case studies we selected had final decision dates between 2001 and 2005. The competitions represent 1,967 military and civilian positions, or about 3 percent of the Navy competitions conducted between 2001 and 2005. While not a random sample of the competitions conducted in the selected time frame, they represent a broad range of activities from facilities maintenance and information technology, to ship operations and maintenance. Table 1 summarizes the competitions we used as case studies.

The competitions consisted of two contract decisions and 11 in-house decisions. They ranged in size from 21 FTE to 403 FTE, with an average size of 151 FTE and median size of 138 FTE. Because the sample is not random and therefore not representative of the population of Navy competitions, the average and median size in our sample is significantly higher than the Navy's overall average size of 38 FTE and median size of 12 FTE. We had at least 1 year of operational data on each competition, and several of the competitions had completed their last performance periods.

Table 1. Summary of selected competitions

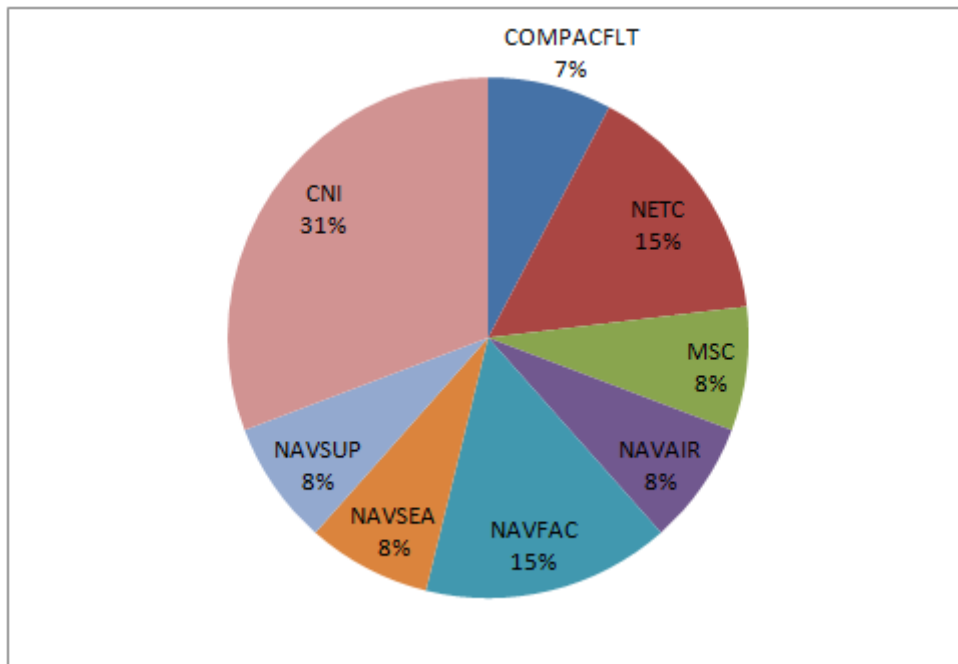
Competition name	BSO	Function(s)	Baseline FTE	Military FTE	Civilian FTE	MEO	Service provider
Competition 1	NAVFAC	Utilities	271	0	271	163	MEO
Competition 2	NAVFAC	Maintenance & hazardous waste services	290	0	290	0	Contract
Competition 3	NAVAIR	Admin support	75	0	75	43	MEO
Competition 4	MSC	Ship operations	83	0	83	0	Contract
Competition 5	NAVSUP	Retail supply	221	0	221	185	MEO
Competition 6	CNI	Transient aircraft services	21	4	17	18	MEO
Competition 7	COMPAC-FLT	BOS-logistics support, PMS for ships, finance & accounting, IT, admin	163	9	154	73	MEO
Competition 8	NAVSEA	Test site operations	96	0	96	31	MEO
Competition 9	NETC	Training development	140	14	126	85	MEO
Competition 10	NETC	Training development	403	137	266	306	MEO
Competition 11	CNI	Port terminal & water transp. services	59	0	59	52	MEO
Competition 12	CNI	Non-guard force protection services	66	0	66	49	MEO
Competition 13	CNI	OSHA compliance/misc.	79	0	79	31	MEO
<b>Total</b>			<b>1,967</b>	<b>164</b>	<b>1,803</b>	<b>1,036</b>	



## Distribution by BSO

Eight of the Navy's 22 BSOs that conduct competitions were represented in our 13 case studies. These BSOs have 76 percent of the Navy's public-private competitions. Of the eight BSOs represented, five competitions (31 percent) were conducted by Commander Navy Installations Command (CNIC). Naval Facilities and Engineering Command (NAVFAC) conducted two of the competitions in our sample (15 percent) as did Navy Education and Training Command (NETC). Each of the remaining BSOs in the sample are represented by a single competition. Figure 1 illustrates this distribution by BSO.

Figure 1. Distribution of competitions by BSO





## The Navy's approach to PCA

DoD has chosen a decentralized approach to implementing the various PCA requirements. As a result, variation exists at the Component level in how the requirements are met.

We examined the Navy's guidance on PCA to understand how it is being approached by the BSOs and installations and to identify any differences and similarities in interpretation of the Circular's PCA requirements. In doing so, we looked for several things:

- overall approach to PCA;
- compliance with OMB requirements and DCAMIS policy;
- comparable accountability standards for MEOs and contractors; and
- level of accountability.

In the next section, we discuss how the Navy's implementation approach compares to the other Components.

### DoD's PCA guidance

OSD has issued overall policy guidance for DCAMIS and maintains the DCAMIS database to capture cost and descriptive information on competitions. With the introduction of the Circular's PCA requirements, OSD added additional fields in DCAMIS to more fully track the costs of contractors and MEOs. The new DCAMIS fields were designed to not only better track the costs of MEOs, but to also identify the reasons behind cost changes for both MEOs and contracts. Modifications were also made to COMPARE, the software used to estimate MEO costs, in order to reflect changes in cost estimates as MEOs were implemented. To date, guidance on other areas of PCA have not been issued in final form by OSD.

Other PCA data collection and reporting activities at the OSD level include the annual reporting of competitive sourcing activities to OMB. This reporting includes the preparation of the 647(b) report, which contains post-competition cost and descriptive data for DoD. At this time OSD does not collect and report performance data to OMB.

## **The Navy's overall approach to PCA**

The Navy has chosen to continue using its normal Federal Acquisition Regulation (FAR)-based contract monitoring procedures and has established a separate, but similar, monitoring process for MEOs.

OPNAVINST 4860.7D, dated September 2005, describes the Navy's system for the annual collection of MEO cost and performance information. The Navy's Post Competition Review Guide (Review Guide), outlining the requirements for annual MEO reviews, was issued in draft form in August 2007. The guidance is designed to

- ensure the MEO has been implemented in accordance with the Agency Cost Estimate;
- verify that the MEO was able to perform the services in the Performance Work Statement (PWS) and meet all standards of quality and timeliness; and,
- ensure that actual costs are within the Agency Cost Estimate.

### **Continuous cost monitoring, quality control, and quality assurance**

The Review Guide mandates continuous cost and performance monitoring through both quality control and quality assurance of the MEO's performance.<sup>7</sup> It assigns responsibility to the BSO for cost tracking, and for the review and approval of modifications to the LOO. The Review Guide details the monitoring process including (1)

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7. The government relies on the service provider to regularly monitor performance (quality control), while the government ensures that the quality control plan is being implemented (quality assurance.)

the use of the performance assessment plan; (2) the preparation of monthly performance assessments; (3) taking corrective actions when necessary; and (4) the annual review of cost, FTEs, workload, and performance. It outlines when and how to make modifications to the LOO for changes in scope, workload, funding levels, and technology. It even describes how monitoring is to proceed in the event that two or more MEOs are consolidated into a single MEO.

### **Annual post-competition reviews**

Navy guidance requires that annual PCA reviews are conducted for each MEO within 90 days of the completion of the performance period. The review is performed at the installation level or its equivalent, and it includes (1) a verification of workload; (2) a comparison of estimated and actual costs; and (3) a validation of performance levels against performance metrics, including customer complaints. It identifies and explains any reasons for differences and updates the original COMPARE file for any modifications and wage rate changes. The annual report data are submitted to the Navy Competitive Sourcing Program Manager via NAVDOCS. The Program Manager then examines the annual reviews, and MEOs found to be significantly underperforming may be selected for a Chief of Naval Operations (CNO)-sponsored review.

### **BSOs' implementation of Navy PCA**

OPNAVINST 4860.7D assigns the following PCA responsibilities to the BSOs:

- approve changes to the requirements of the PWS that are necessary to meet increases or decreases in mission, tasking, workload, or funding;
- report on the performance of MEOs under their cognizance within 90 days following the end of each full-performance period. To fulfill this requirement, the Competitive Sourcing Program Manager of each BSO approves the annual PCA reviews prior to their submission to OPNAV; and

- approve any contracting officer recommendation to the CNO to terminate an MEO for default as a result of poor performance.

Based on the interviews we conducted during our review of the 13 case studies, and our interviews with the BSOs' Competitive Sourcing Program Managers, we found that the BSOs all fulfill these responsibilities. However, there is some variation in how they do so with some Program Managers taking a more active role than others.

These variations tend to result from a combination of the unique culture of each BSO, the personality of the individual Program Manager, and the number of MEOs they oversee. For example, two of the Program Managers we interviewed indicated that they rigorously review any request and demand detailed justification for each proposed change to the PWS. Other Program Managers are less stringent in their demand for justification for proposed changes and routinely approved the requests. Similarly, some BSOs conduct the annual PCA review or arrange for a third party to do so, while others depend on the activity with the MEO to prepare the annual report.

We did not observe any incidents where the BSO, upon review of the annual PCAR, required corrective action by the MEO with respect to its cost or performance. In the one case where the PCAR revealed a lack of performance review, the Regional Business Office, an organization independent of the MEO, conducted the review and required corrective action.

## **Navy compliance with OMB requirements**

OMB requires agencies to track cost and performance. The Navy meets these requirements through its draft guidance. However, to determine whether activities are being performed efficiently and effectively, the Navy guidance also requires that workload data and FTE levels be monitored. In light of this, in this report we examine each of these components, including workload and FTE monitoring, and report on them in separate sections. Table 2 summarizes the compliance with each of the Navy's PCA requirements for each of the 11 MEOs in our sample.

Table 2. Summary of compliance with Navy PCA guidance requirements<sup>a</sup>

Comp	BSO	Function(s)	Adjusted costs?	Performed quality assurance?	Tracked FTE?	Tracked workload?
1	NAVFAC	Utilities	yes	yes	yes	yes
3	NAVAIR	Admin support	yes	no	yes	yes
5	NAVSUP	Retail supply	yes*	yes	yes	yes*
6	CNI	Transient aircraft services	yes	no	yes	yes*
7	COMPAC-FLT	BOS-logistics support, PMS for ships, finance & accounting, IT, admin	yes*	no***	yes	yes
8	NAVSEA	Test site operations	yes	no***	yes	yes
9	NETC	Training development	no	no	no	no
10	NETC	Training development	no	no	no	no
11	CNI	Port terminal & water transp. services	yes	yes	yes	no**
12	CNI	Non-guard force protection services	no	yes	yes	no**
13	CNI	OSHA compliance/misc.	no	yes	yes	no**

a. \* = did not track all performance periods; \*\* = sampled workload; \*\*\* = tracked labor hours and workload in lieu of quality assurance

OMB also requires agencies to independently validate a sample of completed competitions to assess the accuracy and completeness of the cost and performance data and to evaluate the effectiveness of post-competition management actions. The Navy is accomplishing some of this validation requirement when PCARs are performed by independent third parties. However, to fully comply with this requirement, DoD and the Navy need to issue formal guidance specifying how it is to be accomplished.





## **How does the Navy’s approach compare to that of other DoD Components?**

Most of the Military Services and larger Defense Agencies have issued PCA guidance to amplify and bring specificity to the categories of costs required in the DCAMIS fields, as well as to provide guidance on how to track performance. Component-level guidance also addresses any Service- or Agency-specific issues that may exist.

Within the Components, responsibility for PCA falls at various levels within the chain of command. Each Component has taken a slightly different approach to ensuring the PCA requirements are met. Table 3 illustrates the variation in approaches employed by the DoD Components.

Table 3. PCA roles and responsibilities

Component	Installation/Activity Level	Command and HQ Level
Army	Post-competition annual reviews for 100% of MEOs larger than 65 FTEs and 50% of MEOs with less than 65 FTE (however, resource constraints have limited actual execution). Contract costs are tracked continuously and reviewed annually at the installation level.	Major command level monitors costs and reviews data in DCAMIS. Installation level responsible for informing Major Command and HQ of poor cost control by contractors or MEOs.
Navy	MEOs are required to track costs and conduct a post-implementation review of workload, cost, and performance. Cost and performance data reported quarterly to NAVDOCS. Contract costs and performance tracked continuously and reviewed annually at the installation level.	Costs are verified using a structured BSO-level review (equivalent to the major command level). Modifications to scope or workload require BSO-level approval. Competitions showing large variation from expected values or performance problems are flagged for review at HQ level. Interviewees indicated that independent reviews are conducted annually on 20% of competitions.
Air Force	ACTT system tracks labor and non-labor actual costs (personnel costs come directly from DFAS/DMDC download) to ensure compliance monthly. Performance metrics are also collected monthly. Multi-functional team completes annual certification report on workload, cost, and performance. MEO is certified annually. Contract costs tracked continuously and reviewed annually at the installation level.	The Air Force Manpower Agency monitors MEO implementation, conducts compliance inspections, and special inspections. Compliance inspections are conducted on 20% of MEOs annually. Data in ACTT are monitored at the Major Command level with data submitted from the installation. Service providers with unwarranted cost growth or poor performance are flagged at the Major Command and HQ level.
USMC	Annual workload, performance, and cost reviews of MEOs. Reviews are conducted by an independent review team. Contract costs tracked continuously and reviewed annually at the installation level.	Cost and performance of MEOs are reported to, and monitored by, the Major Command. DCAMIS data and annual review of MEOs analyzed at the Major Command level.
DLA	Monthly tracking of both MEO and contract costs and performance. Annual cost, performance, and workload verification of all service providers by the Office of Internal Review.	Competitive Sourcing Division monitors costs monthly. Final approval of default or termination must be granted by DLA Component Competitive Sourcing Official (CCSO).

The Defense Logistics Agency (DLA), the Navy, and the Air Force have instituted the most robust systems for PCA. DLA, for example, makes little if any distinction between type of provider, holding both MEOs and contractors to the same standards. At the other end of the spectrum, the smaller Defense Agencies have little or no guidance or systematic monitoring. Some of these agencies report costs annually to OSD, but at least one of these organizations has not reported any cost information through DCAMIS on its completed competitions.

## **Cost and performance tracking**

The Military Services and major Defense Agencies meet OMB's requirements by mandating that costs and performance data be collected and reviewed at least on an annual basis. Specifically

- DLA monitors cost and performance continuously, and independently validates the cost and performance of each service provider at the end of the first year for competitions. Annual validation is optional in the outyears.
- Air Force uses an automated A-76 tracking system to track MEO costs monthly. The system uses standard cost factors and monitors savings over time. Air Force also requires that an annual review of cost and performance be completed for each MEO during the fourth quarter of each performance period. This report is reviewed and certified by the installation commander or equivalent.
- Army requires that MEO performance be reviewed annually and validated, typically by the Army Audit Agency, each year for competitions with at least 65 FTE.
- Marine Corps conducts annual cost and performance reviews of each MEO. The reviews are to be headed up by an individual who is independent of the most senior official in the MEO. Part of the performance review is a review of the activity's projected and actual workload.

## **Comparable treatment of contracts and MEOs**

One of OMB's principal objectives in its 2003 revision of the Circular was to ensure that MEOs were held to the same or equivalent standards as contractors to the greatest extent possible. DLA makes little distinction between its monitoring of contracts and MEOs. The Navy, Air Force, and Marine Corps, while they have separate monitoring procedures for MEOs, provide for tracking of costs and performance similar to that required for contracts. Army, on the other hand, requires continuous tracking of its contracts, but it has no similar specific requirement for MEOs. Instead, MEO cost and performance are reviewed annually.

## **Level of accountability**

Monitoring costs and performance should not be confused with true accountability. Accountability requires that corrective measures be taken if the provider, whether MEO or contractor, fails to meet the cost and performance requirements of the contract, LOO, or PWS. The FAR specifically identifies the measures to be taken (e.g., cure notices, show cause letters, withholding of funds, termination, etc.) in the event that a contractor fails to perform. The Components' post-competition guidance is less clear on how MEOs are to be held accountable or what corrective measures need to be taken in the event that an MEO fails to perform satisfactorily.

Navy guidance requires corrective action at the local level, and notification to BSO (i.e. major command) and HQ level in the event of unsatisfactory performance. A HQ-level review is triggered if an MEO continues to perform unsatisfactorily. DLA, Air Force, and Marine Corps also require that corrective action be taken if an MEO fails to perform. If the corrective actions are unsuccessful, the guidance requires that the MEO be terminated and the activity recompeted or contracted out. The Army guidance does not discuss how or when to take corrective action.

## **Validation**

As noted earlier, in April 2007 OMB issued PCA guidelines that require each Agency to independently validate a sample of com-

pleted competitions to assess the accuracy and completeness of the cost and performance data and the effectiveness of post-competition management actions. Neither DoD nor any of the Components have issued formal guidance or instructions specifying how this requirement is to be met. However, all of the major Components are providing some measure of cost validation because independent teams or organizations are performing post-competition reviews on all or a portion of their MEOs annually.

Prior to issuing its guidance on the validation of annual PCA reports, the Navy should examine similar practices by DLA, the Marine Corps, and the Army. These Components routinely use independent, third-parties to head PCA teams or to validate annual performance reviews and can provide valuable insight on how best to meet OMB's validation requirements.



# Monitoring MEO and contract costs

Our previous research examining competitions that were completed between 1988 and 1996 found that the majority of MEOs did not monitor or collect data on FTEs or the cost of performance.<sup>8</sup> When they did, data were frequently insufficient or inaccurate. That is not the situation today. For this report, nine of the eleven selected competitions with an MEO decision had quantifiable and auditable cost and FTE information.<sup>9</sup>

The following section focuses on cost monitoring and tracking. We examine how the Navy and its BSOs collected, compared, and utilized cost information in managing the competed activities. Our analysis is centered around the following questions:

- How are MEO costs tracked or monitored as compared to contract costs within the Navy?
- How accurate is Navy cost monitoring
- Are there “best practices” employed by other Components that could be used by the Navy to improve its process?

## Background

### Important considerations

To fully understand how costs are monitored, it is important to note that the cost of providing government services never remains static.

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8. Clark, F. et al., *Long-run Costs and Performance Effects of Competitive Sourcing*, Feb 2001, CNA, CRM D0002765.A2, pp. 48-50.

9. Two MEOs that were later combined into a single MEO estimated the number of FTE that would have been in the MEO if it had remained intact, and reported labor costs were based on that estimate.

Over time, salaries increase, scope or workload may be adjusted based on demand, material and supply costs may increase or decrease, one-time costs may be incurred to meet specific requirements, and technology improvements can impact both the supply and demand for services. These types of changes can occur regardless of whether the service provider is a contractor or an MEO.

When tracking costs over time, and determining if savings are being realized, it is necessary to understand the impact of this dynamic environment. Visibility of costs in any performance period, and the reasons for variation from the original cost estimate, are necessary to determine if savings are being realized.

## Definitions

When evaluating costs, we have found that terms like “actual costs” mean different things to different people. Employing a standard terminology can avoid potential misunderstandings. To address this problem, and to ensure variations from the original cost estimate are fully understood, we use the following cost definitions:

***Expected Costs*** — These costs are determined at the time of the performance decision and are based on the values included in the Standard Competition Form/Streamlined Competition Form (SCF/SLCF). They are estimates of what the government should expect to pay in each performance period based on the original set of activities, wage rates, and unit prices identified in the solicitation.

***Observed Costs*** — These are the actual costs incurred by the service provider for a given performance period. These costs may or may not equate to the Agency or Contract Cost Estimate depending on what changes have occurred to the set of activities originally defined in the solicitation. For example, an MEO providing information technology (IT) support may experience observed costs in the second performance period that are substantially higher than what was expected in the Agency Cost Estimate if requirements increased. As these observed costs reflect a change to the original set of requirements that were competed, they cannot be compared to the original estimate to gauge the efficiency or inefficiency of the service provider.



**Effective Costs**— These are the costs to the Navy of providing the same set of requirements as originally defined in the original cost estimate. For the IT example above, the effective costs for the second performance period would exclude the costs associated with the workload increase, thereby providing a calculation of actual costs based upon the requirements outlined in the original solicitation. This type of apples-to-apples comparison provides visibility of true savings and also real cost growth.

Effective costs have to be developed using actual cost data and data on modifications to the contract or LOO. Effective costs can be calculated in one of two ways. First, as per the example above, they can be determined by excluding scope, workload, and other warranted cost changes from the observed costs in a given performance period. Second, they can be determined by adjusting the original cost estimate forward to capture the new requirements and/or warranted cost impacts. Either approach allows for an apples-to-apples comparison of the costs associated with the same set of requirements and thus, an accurate estimate of savings.

### **Importance of evaluating both observed and effective costs**

Functional managers need information on both the *observed* and *effective* costs of their service providers. *Observed* costs provide information on how well or poorly a service provider is adhering to its budget in a given performance period. *Effective* costs provide information on how efficiently or inefficiently the service provider is performing with respect to the requirements of the PWS. *Effective* costs provide insight to upper-level management on whether the expected savings from public-private competition are being achieved.

There is also significant interest in how *observed* costs change over time. Installations, in particular, focus more on *observed* costs (as compared to *effective* costs) because installation budgets are typically based on *expected* costs of the contract or MEO. In many cases, changes in the scope of work or workload will significantly increase the *observed* costs of the activity in question with little or no budgetary relief.

Recognition and use of these different types of costs—*expected*, *observed*, and *effective*—in the Navy’s PCA process allows managers at

all levels, from the installation level to OPNAV, to improve the day-to-day management of the activity in question and to understand whether the Navy is realizing savings from its Commercial Services Management Program. It would also allow the Navy to separate and evaluate the costs of meeting the original scope of work and the impact on costs from changes in scope, workload, and other adjustments.

## Developing MEO and contract costs

It is important to understand how MEO and contractor cost estimates are developed during the competition. Contractor cost proposals can be considered *data-driven* as they are developed using standard cost accounting procedures, and have as their basis the current or historic costs incurred in an organization. As a consequence, contract cost monitoring involves capturing the actual costs incurred over the life of the contract. They can be, and are, audited for accuracy and compliance with the contract terms. Agency Cost Estimates, on the other hand, typically represent an amalgam of *data-driven* costs, such as material and supply costs, and *standard cost factors*, which provide a standard estimate of a specific category of cost.

Many of the *standard cost factors* are derived based on Office of Personnel Management (OPM) calculations across the federal workforce. These standard cost factors are necessary because government budgeting and accounting systems are not designed to provide the same level of visibility over costs as systems used by private contractors. For example, most government cost accounting structures are not in place at a granular enough level to identify general and administrative costs or other indirect costs. Therefore, *cost factors* become necessary to ensure an apples-to-apples comparison of the same categories of costs. They also help ensure fairness during public-private competitions. Examples of these *cost factors* include the cost of personnel benefits and the overhead costs in the Agency Cost Estimate, among others.<sup>10</sup> Any cost monitoring must, as a consequence, take these inherent limitations into account.

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10. The current cost rate for overhead is 12 percent of personnel costs, and the cost rate for civilian personnel benefits is 36.25 percent.

## Tracking contract and MEO costs

Contract award amounts (or “costs”) are documented in the official contract file and are compared against the funds that are currently available or obligated to the contract. When a contract is modified for scope and/or workload, the schedule of price and costs is updated to reflect the impact of these changes. This updated copy of the contract reflects what performance *should cost* after the modifications are in place. Functional managers and contracting officers evaluate a contractor by tracking invoices and costs incurred against the updated version of the contract.

The contract costs reported in DCAMIS provide for comparison of *observed* contract costs against the original contract cost, which can be found on line 7 of the SCF/SLCF. This should not be interpreted as a savings estimate, as the costs reported in DCAMIS can reflect a different set of requirements than were originally competed.

In contrast, MEO costs cannot be developed using standard government cost accounting procedures. The use of cost factors coupled with variations in accounting systems limits the methods available to government managers to track post-competition MEO costs.

## The Navy approach to tracking MEO costs

The Navy has instituted a service-wide system to track MEO costs. It requires that costs be tracked against an Adjusted Agency Cost Estimate. However, the cost estimate is not linked to a budget or the actual staffing of the MEO. Instead, the Navy uses COMPARE to adjust the original Agency Cost Estimate to account for changes in scope and workload and to inflate personnel costs to current dollars.

The Navy method inflates all personnel (regardless of how they are categorized in the original estimate) to the current year and modifies the original MEO staffing for warranted changes to the PWS (e.g., scope, workload, etc.) to develop a current adjusted Agency Cost Estimate. Labor estimates are still based on the mid-step of the grade and not on the actual steps of employees filling the positions. This infla-

tion-adjusted estimate is used to compare the current costs of the MEO.

## Advantages

The most significant advantage of the Navy approach is its ability to capture real—or *effective*—savings by bringing the Agency Cost Estimate forward and modifying it to match the updated set of requirements for the MEO. This approach is designed to answer the question “What would my Agency Cost Estimate look like now?” It also accommodates the dynamic nature of providing government services and presents an Adjusted Agency Cost Estimate that reflects the updated set of requirements. This approach then compares MEO costs to this estimate.

## Disadvantages

This approach recognizes that the labor costs in the Agency Cost Estimate are a mix of inflated and uninflated costs,<sup>11</sup> and adjusts them forward to ensure that comparisons are conducted correctly for the period of performance being analyzed. However, the Adjusted Agency Cost Estimate may still vary from the MEO’s budget or actual costs because employees are assigned to the positions at various steps within a grade or with saved pay (e.g., if an MEO is staffed only with personnel at a step 10, the comparison to the Adjusted Cost Estimate would show degraded savings). To accommodate these kinds of discrepancies, some cost variation is permitted.

Another disadvantage to this approach is that it does not determine or categorize cost growth as warranted or unwarranted. Warranted cost growth includes things such as pay rate increases and scope changes. Unwarranted cost growth includes, for example, increasing FTE in an MEO without an associated increase in requirements. If oversight is lacking, modifications for unwarranted cost growth will

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11. According to A-76 costing rules, only those positions exempt from the Service Contract Act are inflated in the “out years” of the Agency Cost Estimate.

go undetected as both the MEO actual costs and the Adjusted Agency Cost Estimate will be modified.

A third disadvantage is that the Navy only captures the actual cost of the personnel benefits it provides and does not include the portion of benefits that represent the government's unfunded obligation that is paid out by the OPM once an employee retires. Since these costs are included in the original Agency Cost Estimate, their omission will underestimate the MEO's true labor costs.

Finally, the Navy approach is resource intensive. Generating annual estimates in a Microsoft Excel-based environment requires significant time and training for each MEO reporting. The process involves re-running COMPARE annually on an ever-changing organization.

### **Variability by BSO**

Variability in approach by Navy BSOs and availability of cost data from accounting systems has led to variation in the categories and completeness of costs being captured at the BSO or installation level.

Most BSOs have the ability to identify the actual cost of wages, subcontracts, and some supply and material costs within their MEOs. Other BSOs have the ability to identify most of the benefits cost paid by the Navy and some portion of operations overhead costs. Other organizations have no capability to do either. In these cases, costs are estimated as a percentage of the cost of wages, or they are excluded. Overall, there are portions of MEO costs that are estimated and should be viewed as the best approximation of actual costs.

## **Other approaches to tracking costs**

As a result of our review of the various Component's PCA guidance,<sup>12</sup> we found that there are four principal processes used to monitor MEO costs:

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12. Clark, F. et al., *OMB Circular A-76: Post-Competition Accountability in the Department of Defense*, CNA, Apr 2008, CRM D0017845, pp. 25-31.

- Budget-Based Adjusted Cost Estimate (used by the Army and DLA)
- COMPARE inflation-based Adjusted Cost Estimate (used by the Navy and the Air Force)
- Adjusted actual cost approach (used by the Marine Corps)
- FTE-based approach

The first two of these approaches requires, as a first step, function managers to develop a revised Agency Cost Estimate. This step is essential because the Agency Cost Estimate as submitted in the Agency Tender is inadequate as a baseline for comparison to actual costs. This is because (1) the original Agency Cost Estimate inflates only a portion of the MEO labor costs; (2) sufficient time may have passed so that even the inflated costs need to be re-inflated; and (3) workload or scope changes may have occurred prior to the start of the MEO and these changes need to be reflected in the estimate.

### **Budget-based Adjusted Agency Cost Estimate**

In this method, MEO costs are tracked against a budget-based Adjusted Agency Cost Estimate. Specifically, the official Agency Cost Estimate is cross-walked to an MEO budget to reflect the actual steps and grades of personnel in the MEO, supplies and materials, common costs, etc. As personnel, supply, material and other costs are incurred, they are collected and compared to the new adjusted cost estimate to ensure that costs are on target. The adjusted cost estimate can be modified to reflect any modifications to the LOO or its equivalent.

#### **Advantages**

The principal advantage to this approach is that the activity manager can track MEO costs against the *expected* costs at the time of competition, as well as the amount budgeted for the activity (reflecting all scope, workload, and other cost adjustments). With these data, he/she can ensure that the MEO is staying within the assigned monetary targets. It also provides a mechanism for isolating and analyzing the validity of the A-76 cost factors and the cost effects of modifying the LOO over time.

This approach allows for an apples-to-apples cost comparison of *observed* costs to an adjusted cost estimate that accounts for the changes to the PWS. If used correctly, the MEO is not penalized for warranted cost growth (e.g., workload changes or wage determinations). This approach is also very similar to the way in which contract costs are monitored.

This approach has a final advantage. Because it requires a separate budget for the MEO, it may make the MEO less vulnerable to arbitrary, external budget reductions. Many of the managers we interviewed complained that the MEO bid was not “fenced” or protected from across-the-board budgetary reductions. Having a separate MEO budget, and even separate accounting codes, makes it much easier to document the MEO’s productivity and unit costs, thus making its current funding levels more defensible. Even if the MEO’s funding is subsequently reduced, it is easier to make corresponding reductions in the work it performs and document it as a modification to the PWS or LOO.

### **Disadvantages**

The principal disadvantage to the Adjusted Agency Cost Estimate approach is that it is developed based on the MEO workforce at an arbitrary point in time (e.g., at time of award, at the end of transition, or at the end of the first year). This *snapshot* approach can yield an Adjusted Cost Estimate that is either artificially high or artificially low because it is based on the composition of the workforce at the time the estimate is generated. Workforce variations, including the distribution of steps in a grade structure, vacancies, and churn, will each cause the Adjusted Agency Cost Estimate to over or understate costs when compared to the MEO over time.

Further, as modifications naturally occur over time, a new Adjusted Cost Estimate must be developed to ensure an apples-to-apples comparisons of the MEO to the Adjusted Agency Cost Estimate. The problem then becomes deciding at what point in time the modified Adjusted Agency Cost Estimate should be developed.

## **COMPARE inflation-based Adjusted Agency Cost Estimate**

The Navy and the Air Force also track costs against an Adjusted Agency Cost Estimate.<sup>13</sup> However, the cost estimate is not linked to a budget or the actual staffing of the MEO but is adjusted using COMPARE to account for changes in scope and workload and to inflate personnel costs to current dollars. This eliminates the disadvantage of having an arbitrary point in time at which the adjusted Agency Cost Estimate is developed.

The Air Force A-76 Cost Tracking Tool (ACTT) incorporates a similar approach to that used by the Navy in that it also develops an Adjusted Agency Cost Estimate for comparison to the current MEO costs. The Air Force ACTT system, which is also based on COMPARE, applies current rates, factors, wages, and salaries, and it compares them against the actual performance costs of the MEO. Qualified and non-qualified costs are also incorporated into the equation. The system has automatic downloads into a COMPARE module of specific categories of actual costs, thereby eliminating some of the manual entry associated with capturing costs.

One specific benefit to the Air Force system over the Navy's method is its ability to download some Air Force costs directly into the system and generate the comparison data. However, the Air Force approach, while being somewhat more streamlined, does require extensive up-front fixed costs to develop the modules and link systems to existing accounting infrastructure.

### **Adjusted actual cost approach**

The Marine Corps uses a reverse approach to the Navy and the Air Force. Rather than adjusting the Agency Cost Estimate to reflect the MEO's budget or to inflate wages, they deflate actual costs back to the Agency Cost Estimate by subtracting out modifications, mission changes, and save pay. This provides an apples-to-apples comparison

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13. The Air Force systems' nomenclature refers to an Award SCF/SLCF (the Agency Cost Estimate as found on the SCF/SLCF) and a Baseline SCF/SLCF (the Adjusted Agency Cost Estimate)



to the original set of functions defined in the PWS. The costs associated with modifications and mission changes are specifically excluded from the comparison.

### **Advantages**

The key advantage of this approach is that it allows complete visibility of whether the *expected* savings identified at the time of competition are being realized. It focuses on the savings generated from the original set of activities contained in the PWS.

### **Disadvantages**

Similar to problems associated with the two approaches above, the calculations necessary to develop the adjusted actual costs can be time consuming and resource intensive. In addition, this approach ignores potential unwarranted cost growth that could occur on modifications made to the PWS that are not considered in developing the adjusted actual costs.

## **FTE-based approach**

In some cases, MEO costs are tracked only in terms of FTE. To the extent that the MEO is at or below the FTE levels as defined in the Agency Cost Estimate, it could be said that costs were in-line.

### **Advantages**

The advantage of this approach lies in its simplicity. The total number of FTE in an MEO may be an adequate proxy for total costs and representative of cost control. It may not be necessary to track every cost to ensure that an organization is meeting its requirements. Rather, FTE can simply be used as a benchmark. For public-private competitions with low levels of non-labor costs and a homogeneous workforce, this type of approach would be adequate.

### **Disadvantages**

Tracking only FTEs provides little incentive for MEOs to control sub-contract and material and supply costs. It also provides an incentive for *grade-creep* if total personnel costs are not monitored. Without accountability for the full complement of costs, incentives are created

for unwarranted cost growth in areas that are not monitored. Further, this approach understates the true costs of the MEO and makes it appear to have greater savings than it does.

## Cost analysis of the 13 case studies

Below we discuss our findings from our examination of the 13 case studies consisting of 2 contractors and 11 MEOs.

### **The Navy is tracking and reporting contract and MEO costs for all competitions annually**

Cost data were tracked for the two Navy contracts in accordance with contracting, or FAR, requirements. These costs are regularly entered into DCAMIS and NAVDOCS.

Costs are being collected and reported in NAVDOCS for all 11 MEOs in our sample. In appendix B we show up to three charts for each of the MEO service providers. The three charts include: (1) cost per unit of workload; (2) workload (bid versus actual); and (3) FTE (bid versus actual).<sup>14</sup> Two MEOs, however, had no capacity to collect actual cost data. In these cases, the MEOs were never implemented because of another conflicting Navy management initiative, and the MEOs lost their identities as MEOs. The BSO responsible for those MEOs has, however, attempted to estimate these costs by reconstructing the number of FTE associated with the MEOs. The labor costs of these FTE have been reported annually. For those two MEOs, then, the estimated costs are being reported as actuals.

This is a significant improvement from the findings in our 2001 report on the long-run cost and performance effects of competitive sourcing. In that study, we found that none of the Navy MEOs in our sample tracked costs once the MEO was implemented.<sup>15</sup>

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14. Five MEOs did not have any workload data entered in NAVDOCS. Thus, for these five, the only chart shown is bid versus actual FTE.

15. Clark, F. et al., *Long-run Costs and Performance Effects of Competitive Sourcing*, Feb 2001, CNA, CRM D0002765.A2.

## **Contract costs are continuously collected and reviewed to ensure compliance**

Officials managing both of the contracts we examined regularly reviewed contract costs from monthly invoices, compared these costs to the estimates in the contract and to budgeted and obligated funds, and made assessments of how well the contractors were performing. If contract costs appeared out of line, they would ascertain the reasons for any discrepancies and take appropriate action. Assessments were typically made monthly or quarterly.

## **Some MEOs did not adjust their cost estimates annually**

Contrary to Navy guidance and its instructions for conducting the annual PCA report, four of the MEOs we examined did not adjust their cost estimates for any of the performance periods.

Without these annual revised cost estimates it is impossible to make an apples-to-apples comparison to determine how the MEO is performing when scope, workload, and wage adjustments are taken into account. While a comparison of the original cost estimate to the MEO's actual costs will provide *observed* savings, one cannot use the results to gauge the efficiency or inefficiency of the service provider. If they are compared, this apples-to-oranges comparison can have the following negative impacts:

- First, there is the possibility that uninformed reviewers will assume that the MEO is less or more efficient than is actually the case because warranted changes to the original set of requirements have not been taken into account.
- Second, it clouds the ability to determine whether savings are being achieved. When comparing post-competition costs against the standard competition form, warranted cost increases/decreases will muddy the ability to calculate savings on the original set of requirements in the PWS. For example, in one of our case studies, we saw substantial increases in contract costs due to the addition of war-time surge requirements. In this example, the overall costs of the contract increased, but the costs of the original workload remained steady. However, when

evaluating the NAVDOCS data, the costs associated with the contract appear to have increased and the savings degraded.

- Third, the effect of these modifications on the original PWS can appear to magnify over time. For example, if a scope or workload change occurs in the second period of performance, it may impact the remainder of the performance periods. Therefore, as cost information is reported for each subsequent performance period, the total costs may reflect cost impacts of modifications that occurred years before.

### **While costs were collected annually, they may not be used in the day-to-day management of the MEO**

In at least five of the MEOs we reviewed, costs were only collected or reviewed on an annual basis. Interim cost information was not collected or regularly used to determine whether the MEO was performing adequately. In 8 of the 11 MEOs, costs were not reviewed on a regular basis. In three of these MEOs, the MEOs had lost their original identity and regular reviews were not conducted. In the five other MEOs, monthly or quarterly reviews were held but these reviews were typically of a broader organization or function and MEO-specific costs were not separated from the rest of the function or were not reviewed separately. In at least half of the MEOs, managers we interviewed monitored and made decisions based on a combination of workload and labor hours, rather than on the cost or performance of the MEO.

Managing by reviewing workload and labor hours is a historical government practice arising from a time when it was difficult for government managers to obtain costs for a specific function. Many managers still prefer this familiar way of managing even when better cost information becomes available.

The lack of focus on MEO costs, particularly in relation to workload, has a couple of drawbacks:

- First, the installation and BSO have little visibility on whether the MEO is performing in accordance with its bid on a day-to-

day or month-to-month basis. An annual review may not allow timely or meaningful mid-course corrections.

- Second, the MEO may not understand the full consequence of their decisions during the year and may miss opportunities to improve operations.

The frequency of reviewing operational costs should be tailored to the unique aspects of each function and will depend on such factors as the size and complexity of the function, annual spending patterns, and whether the funds are appropriated or from a working capital fund. Bear in mind that, for most contracted functions, costs are reviewed at least monthly.

### **Limited cost visibility**

To provide better cost visibility, many DoD Components are increasingly establishing separate budget and accounting codes for MEOs that are appropriations funded. However, several of the MEOs in our sample had no separate budget and accounting codes, and the officials we interviewed stated that this lack of separate codes made it considerably more difficult for them to identify all relevant costs and provide more effective cost control. They also felt that it made them more vulnerable to arbitrary or installation-wide budget reductions. These officials often indicated a need for “fencing” the funds that were identified in their Agency Cost Estimate.



## Performance tracking

Performance tracking is the other major required element of PCA. To assess performance tracking, we interviewed officials at all levels of the Navy and reviewed the relevant documentation. This included program managers, contracting officers, quality assurance evaluators, and customers at headquarters, BSO, and installation levels. In doing so, we attempted to answer the following questions:

- Was performance monitored?
- Is MEO and contract performance monitored in comparable ways and held to comparable standards?
- How can the Navy improve its methods for monitoring performance?

## Purpose of performance monitoring

The purpose of performance monitoring and accountability is to ensure that the performance standards identified during the public-private competition are realized. If they are not, corrective action should be taken. Ultimately, performance monitoring is designed to determine if the service provider is performing as outlined in the contract, LOO, or fee-for-service agreement.

Unfortunately, in many cases we found that local-level officials did not understand the elements of performance monitoring and/or did not understand the difference between performance monitoring and workload tracking.

Technically speaking, performance monitoring begins with the award of a contract or the signing of the LOO and ends when the contract or LOO is closed out. However, if the performance metrics in the PWS aren't carefully written, performance monitoring post-competition becomes difficult.

Performance monitoring involves responsibilities on the part of both the service provider and the government. The service provider has a responsibility to exercise quality control to monitor its own performance. The government, as the oversight authority, monitors the service provider. Essentially, the government relies on the service provider to regularly monitor performance (quality control), while the government ensures that the quality control plan is being implemented (quality assurance).

The government usually uses quality assurance evaluators (QAEs) to perform these assessments. Ideally, the QAEs should be identified at the beginning of the competition. Doing so allows sufficient time for the QAEs to be fully trained before the final decision has been made. We found that a lack of training resulted in many QAEs performing quality control rather than quality assurance.

How performance will be monitored is specified in the Quality Assurance Surveillance Plan (QASP), which is usually part of the competitive solicitation. The QASP is developed by the PWS team and identifies the performance metrics the government will use to determine whether the terms of the PWS are being met. The QASP spells out the level of quality, quantity, and timeliness that must be maintained. The government typically re-evaluates the QASP after the performance decision is made and modifies it based on the selected service providers quality control plan.

## **Analysis of 13 case studies**

### **Performance monitoring is spotty**

We found that performance was monitored for both contracts and 5 of the 11 MEOs. An additional MEO is currently tracking performance, but it was not doing so during the first two performance periods. The five remaining MEOs were doing no quality assurance and in most cases no performance tracking.

As previously mentioned, three of these five MEOs were subsumed into other Navy management initiatives, thus losing their identity and making it difficult or impossible to monitor performance. In the case



of the two training MEOs, the FTE in the MEOs were transferred to the various components established by the Revolution in Training. This resulted in the MEOs losing their unique identity. The BSO has made an attempt to reconstitute the MEO on paper and is reporting the personnel costs of the associated number of FTEs. Unfortunately, the BSO was unable to locate about 40 FTE and their associated costs.

In the third competition, the installation involved took a different approach in its attempt to report the MEO's cost and FTE. Approximately 80 percent of the MEO was transferred to another BSO. Much of the remaining FTE were then co-mingled with other non-MEO personnel. Rather than reconstitute the MEO, it eliminated all FTE and costs associated with that transfer from the MEO. Monitoring performance of the remaining portion of the MEO was difficult to impossible because it had lost its identity once it was merged with non-MEO personnel. Therefore, rather than monitoring performance, the installation tracked the workload of the remaining MEO FTE and reported it and the costs associated with the MEO FTE in its annual PCAR reports.

In addition, two other MEOs performed no quality assurance, though some quality control was performed. In these two case studies, no QAEs were assigned to monitor the MEOs.

The lack of performance monitoring was not indicative of a variance among BSOs as much as it appeared to be a variance among installations. At some locations little importance was placed on monitoring the MEO in general. In the two cases where no quality assurance took place, the MEOs were small.

A combination of improved training, independent validation, and better oversight at the BSO level can help improve the level of performance monitoring. However, it is critical that the Navy first determine how BSOs and installations are to proceed with MEO implementation when faced with other competing or conflicting management initiatives. This should be done as early in the competitive sourcing process as possible so that these initiatives can be incorporated into the scoping and packaging process if appropriate. In the event that this can't be done, procedures are needed to determine when a com-

petition or resulting contract or MEO should be modified or terminated as a result of the other management priorities.

## **Few instances of performance accountability**

We found few instances of true performance accountability in our review of the 11 MEOs in our sample. The key reasons were:

- Many of the metrics being tracked were not performance metrics, but workload indicators. Workload indicators do not provide managers with any notion of the quality or timeliness of the work being performed; they show the amount of work performed.
- The QASP was not implemented in six of the MEOs we reviewed either because it was never completed or because no QAEs were assigned to assess the MEO's performance.
- In four cases, the information gleaned from performance monitoring was evaluated on an on-going basis. In six MEOs, performance data appeared to be collected only so that they could be reported in the annual PCAR.

In addition, we found few examples of corrective actions being taken if the MEO failed to meet the requirements of the LOO or PWS. In only one case was the MEO required to take corrective actions with a 90 day follow-up when it was found that no performance monitoring was occurring. Although the officials conducting the annual PCAR requested corrective actions as early as the first performance period, performance tracking only began in the third performance period.

## **Summary of performance levels**

Overall, the officials we interviewed—program managers, QAEs, contracting officers, and customers—were satisfied with their service providers' level of performance, whether the provider was in the public or private sector. Generally, the officials reported that post-competition performance levels were as good or better than pre-competition performance. In a few cases, the officials indicated that performance declined somewhat during the transition or phase-in to the selected service provider, contractor, or MEO, but that it returned to former

levels or improved over time. This is consistent with findings in our previous report.<sup>16</sup> Table 4 summarizes our findings.

Table 4. Performance data on 13 case studies

Competition name	Ave post-comp rating <sup>a</sup>	Performance trend (improving, steady, decreasing)
Competition 1 Utilities	4.5	Improving
Competition 2 Maintenance/hazardous waste	2/3*	Steady
Competition 3 Admin	4	Steady
Competition 4 Operations and maintenance	4	Steady
Competition 5 Retail supply	4.5	Improving
Competition 6 Base operations	4.5	Decreasing
Competition 7 Regional maintenance	N/A	N/A
Competition 8 RDT&E support services	4.5	Improving
Competition 9 Training and development support	N/A	N/A
Competition 10 Training and development support	N/A	N/A
Competition 11 Port services	3.5	Steady
Competition 12 Public safety	N/A	N/A
Competition 13 Safety and support	N/A	N/A

a. Average post-competition rating (1-5) is computed by adding the ratings provided by each person interviewed and dividing by the total number of individuals interviewed.

## How is MEO performance tracked as compared to contractor performance?

In both contracts we reviewed, the contracting office maintained the official competition files, and work was evaluated in accordance with

16. Clark, F. et al., *Long-run Costs and Performance Effects of Competitive Sourcing*, Feb 2001, CNA, CRM D0002765.A2, pp. 48-50.

the QASP or the metrics in the contract. Performance reports were typically submitted monthly.

MEOs are held to the same FAR requirements for the contents of the competition file (FAR 4.8) and they are required to maintain performance information for future source selection purposes (FAR 42.15). However, there is no specific cradle-to-grave, over-arching guidance on how to implement MEO performance monitoring similar to that which accompanies the implementation of contract monitoring. As a consequence, there is greater variation in how MEO performance monitoring is implemented. The most significant of these variations are described below.

#### **Existence of LOO**

Because the competitions we examined were completed in accordance with the previous Circular requirements, the MEOs we examined did not have LOOs. We expect this will change as more competitions are completed under the 2003 requirements. For the MEOs we examined, the PWS that was in the solicitation was used as their contract, or LOO, equivalent.

#### **Changes to the PWS or LOO**

Over the life of a contract or MEO, requirements frequently change in workload, scope, or pay rates. While modifications are routinely made for these changes for *contractors*, many of these changes were not documented for the MEOs in our sample. As a consequence, performance monitoring becomes difficult, as workload, scope, or pay rates may not be current.

#### **Number of QAEs**

Our case studies showed fewer QAEs assigned to monitor MEO performance, as compared to contractor performance. Typically, the number of QAEs monitoring contractor performance ranged between 1 and 2 percent of the total number of work-years in the competition baseline. For many of our MEOs, however, the number of QAEs was less than 1 percent of the work-years baseline.

In six cases, the MEO had no QAEs assigned to monitor performance. Three of these were because the MEO had lost its unique

identity as result of other Navy management initiatives ,and as a consequence, no MEO performance monitoring was done. Table 5 summarizes the number of QAEs assigned to each competition we reviewed.

Table 5. QAE for the 13 case studies

Competition name	Baseline FTE	# of QAE
Competition 1 Utilities	271	2
Competition 2 Maintenance/hazardous waste	290	>7
Competition 3 Admin	75	0
Competition 4 Operations and maintenance	83	1
Competition 5 Retail supply	221	<5
Competition 6 Base operations	21	0
Competition 7 Regional maintenance	163	0
Competition 8 RDT&E support services	96	0
Competition 9 Training and development support	403	0
Competition 10 Training and development support	140	0
Competition 11 Seaport services	59	0.5
Competition 12 Public safety	66	0.25
Competition 13 Command support	79	n/a



## **How the Navy can improve cost and performance monitoring**

The Navy can take a number of actions to improve both its cost and performance monitoring. Good PCA begins during the preliminary planning phase of a competition with a thorough analysis of all the management initiatives that are likely to affect the competed function. Performance monitoring continues during the competitive process with the development of meaningful performance measures and a good quality assurance surveillance plan. Personnel assigned to monitor the MEO's cost and performance need to have comprehensive training as early in the competition as possible so they can begin the monitoring process as soon as the transition period begins. These individuals must possess a thorough understanding of the PWS requirements, inspection and analysis techniques, and internal cost and performance data systems. Improved cost visibility and oversight at all management levels from the functional manager, to the BSO and headquarters levels, including selected validation of results, will also improve the process.

### **Preliminary planning**

If the Navy has other management initiatives that may affect, or conflict with, a proposed competition, they should be identified during the preliminary planning period, and any potential conflicts or timing issues should be resolved at that point. This will avoid the problems we saw in several of our case studies where the MEO could not be implemented as planned because it was subsumed by a higher priority management initiative. It will also ensure the proper alignment of each competition with other management initiatives, internal strategic goals, and the mission of the installation, BSO, and the Navy as a whole. The resolution, once reached, should be

reflected in the scoping and packaging of the function for competition.

Also, the development of the performance standards should begin during the preliminary planning period. Good performance standards and measures are essential for effective PCA. Poor or inappropriate measures, such as using workload instead of outputs or outcomes, will provide a misleading picture of how well the MEO or contractor is performing.

Performance standards should be designed with overall outcomes, and not just outputs, as the basis for measuring the quality of work performed. It is important that the standards be realistic and performance levels can be effectively measured.

## **PWS development**

We also found that the source of some of the problems with performance tracking is in how the metrics in the PWS are developed and written. The individuals writing the PWS need to be fully trained in performance metrics and tracking to ensure that the metrics developed are useful and meaningful and will fully and accurately reflect the performance of the MEO.

## **Training**

In our past research on competitive sourcing, we found that a lack of training caused problems for successful compliance with the PCA requirements. While insufficient training caused problems in both cost *and* performance tracking, it was more problematic in the area of performance tracking. Our analysis of large, multi-function competitions found that QAEs are not sufficiently trained prior to assuming their duties.<sup>17</sup>

Throughout our interviews for this study, we found that a lack of training continues to cause problems in performance tracking. In all cases, the individuals we interviewed understood that there was a

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17. Clark, F. et al., *The Impact of Large, Multi-Function/Multi-Site Competitions*, August 2003, CNA (CRM D0008566.A2/Final)



requirement to track MEO performance. However, in most cases, there was a lack of understanding regarding what “performance tracking” consists of. When asked to describe what performance metrics were being tracked, most interviewees listed workload measures. In other words, several sites were tracking how many tasks each employee was performing within each of the functions in the PWS, rather than how well those functions were being performed. In addition, we found that another common approach to performance tracking fell under the rubric of “no news is good news.” In other words, if customers did not complain then performance must be good.

We also found that QAEs frequently did not understand the requirements in the PWS or the QASP, didn’t appreciate the differences between quality control and quality assurance, and had little experience with the various inspection techniques available to them. As a result, we found it common that QAEs were generally performing quality control, not quality assurance. Also, because many, if not most, of the QAEs came from the function or activity that was competed, they were measuring performance, not according to the QASP, but according to the way in which they performed the same work prior to the competition.

QAEs need to be trained as early in the competitive process as possible so that they can begin monitoring performance as soon as efforts begin to transition to the new provider. In that way, implementation and/or performance issues can be identified and resolved quickly. A trained QAE workforce can also help minimize the potential tension and conflicts that seem to arise during the transition period.

The Navy has developed comprehensive training on its PCAR requirements and regularly conducts courses for those performing the annual reviews and entering data into NAVDOCS. However, many of the officials we interviewed still indicated that they would like to have had training in quality assurance. To our knowledge, the Navy does not offer this type of training to the QAEs monitoring MEO performance, though it is contemplating offering such training. Rather than developing the training anew, the Navy should examine other Components’ training on the subject. For example, DLA has over-

hauled its training program to ensure that all QAEs are properly trained and certified, and it holds annual lessons learned conferences that continually update the organization's collective competitive sourcing knowledge. The following organizations also offer useful training:

- Defense Acquisition University: [www.dau.mil](http://www.dau.mil)
- National Defense University: [www.ndu.edu](http://www.ndu.edu)
- A-76 Institute (Washington, DC): [www.A76institute.com](http://www.A76institute.com)
- BAE Systems (DC / Huntsville, AL): [www.mevatec.com](http://www.mevatec.com)
- Management Concepts (Vienna, VA): [www.mgmtconcepts.com](http://www.mgmtconcepts.com)
- The Performance Institute (Washington, DC / San Diego, CA): [www.performanceweb.org/Training](http://www.performanceweb.org/Training)

The types of courses that should be considered include:

- Introduction to quality management systems/advanced quality management systems
- QA basics (sampling, surveillance, reporting)
- PCA
- Validating invoices; computing deducts; participating in award term evaluations
- Basic data/statistical analysis

## **Cost visibility**

Cost monitoring could be improved by making the MEO's costs more visible to all levels of management. Improved cost visibility starts with establishing separate budgets and accounting codes for the MEO. If the MEO is subsumed in a larger organization with no separate identity or budget, it is difficult to truly know how well it is performing and what its costs truly are. At best, it can only be an approximation. A separate budget, while it can't protect the MEO from arbitrary budget reductions, will make the impact of cuts more visible, and hopefully

it will force managers to make explicit decisions on what services are reduced as a consequence of the reductions.

Separate budgeting and cost tracking will also make it easier for MEO managers to focus on the cost impacts of their day-to-day decisions. Furthermore, it will allow cost monitors to more easily determine if the MEO is fulfilling its obligations under the LOO.

### **Cost and performance validation and BSO oversight**

As mentioned earlier, OMB now requires that a portion of completed competitions be independently validated to assess the accuracy and completeness of the cost and performance data and to evaluate the effectiveness of post-competition management actions. This type of validation, along with improved BSO oversight, will send a strong message to MEO managers and those monitoring them that the Navy takes PCA seriously and expects that it be performed well. This is especially true if MEOs are forced to take corrective actions when any deficiencies are revealed.

### **Incentive or award fees**

Contractors, unlike MEOs, are motivated by profit and loss. Solicitations that include incentive and award fee provisions can provide smart incentives for good contractor performance and continued improvement. Incentive fee provisions can provide increased profit to a contractor and cost savings to the government. These types of incentives do not translate as effectively to MEOs. To date, there have been no MEOs with an incentive fee and only one competition in DoD with an award fee clause that applies to an MEO.

Incentive fees have not been applied to MEOs primarily because MEOs have traditionally been unable to retain the cost savings from efficiency improvements. However, if higher level organizations were committed to ensuring that MEOs could retain a portion of their savings to be used for things such as workplace improvements, bonuses for high performing personnel, and/or funding for updated or new technologies, the incentive fee concept could be applied to an MEO.

## Recompetition

The only other “incentive” that can be used to promote good performance is the threat of recompetition for poor performance or inadequate cost control. None of the MEOs we reviewed wanted to recompete their activity, feeling that the disruption that could be caused by recompetition should be avoided at all costs. Except for the three MEOs that had lost their identity, virtually all MEOs in our sample had or were planning on requesting disestablishment, a waiver from recompetition, or HPO status.

While legislative changes<sup>18</sup> may dilute the effectiveness of this incentive, the threat of recompetition is useful for ensuring a minimum level of performance. It does not, however, provide an incentive for continued improvement. In addition, the resource-intensive nature of conducting a recompetition makes it almost an idle threat except in the most egregious examples of non-performance.

## Postponing recompetition

The prospect of delaying recompetition may be more powerful in promoting good performance. In our previous research,<sup>19</sup> we encountered competitions that rewarded superior performance with additional performance periods, rather than with monetary bonuses. We saw one example of this technique being used in our case studies. In that case, the MEO was awarded 2 additional years of performance. This may be one of the most effective methods of promoting superior performance in an MEO, because the MEO can avoid recompetition for a discrete period of time if it can demonstrate its performance level is superior.

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18. Section 323 of the National Defense Authorization Act for FY 2008 (P.L. 110-181) states that the DoD Components cannot be required to recompete a function at the end of the last performance period.

19. Clark, F. et al., *OMB Circular A-76: Post Competition Accountability in the Department of Defense*, May 2008, CNA, CRM D0017845.A2

## **Waiving of recompetition or granting HPO status**

A variation on awarding additional performance periods for superior performance for an MEO is to waive recompetition or grant the MEO status as an HPO. OMB Circular A-76 provides for the non-competitive extension of the MEO through the use of waivers or the establishment of HPOs if the Competitive Sourcing Official (CSO) determines that continued cost savings justify the waiver or HPO status. The waiver or granting of HPO status can only be given for a maximum of three performance periods before the activity must undergo competition or recompetition.

## **Tying MEO performance to personnel reviews**

Another incentive for good performance is tying MEO performance to annual employee performance reviews. Experience in other Agencies suggests that holding individual managers personally accountable for successful performance of the MEO produces good results. It also sends a strong message that the Navy is serious about PCA.



## Workload and FTE monitoring

OMB and DoD guidance focus on cost and performance as the two key metrics for gauging the efficacy of a service provider and determining whether true savings are being achieved. From our findings on performance monitoring, it appears that MEO performance was not consistently being monitored or evaluated in this way. However, while performance monitoring wasn't as prevalent as one would like, we found that many managers focused on workload and FTE levels, and work-hour distribution, as an alternative to measuring the quality and timeliness of the work being performed. Many of the managers we interviewed were much more comfortable with this type of "performance" monitoring because it was similar to how they had managed their operations in the past.

The Navy guidance on PCA recognizes the importance of knowing workload and FTE levels and requires them to be evaluated as part of its annual review process. We agree that it is essential that the Navy monitor MEO costs, performance, *and* workload and FTE levels. It is the combination of these four factors that provides a full picture of whether the service provider is meeting the requirements of the contract or LOO and whether the savings identified at the time of the competition have materialized. Without data on and accountability for all four factors, it is difficult to effectively evaluate the results from any competition individually and the program as a whole.

### FTE monitoring

Until the changes to OMB Circular A-76 in 2003, DoD and thus the Navy, tracked the number of FTEs in MEOs as a proxy for tracking costs. This is because labor costs constitute the overwhelming portion of MEO costs.<sup>20</sup> The Navy continues to track the estimated and actual

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20. In a previous study of 22 streamlined competitions, we found that the ratio of SLCF line 1a (i.e., personnel costs) and SLCF line 6a (i.e., total cost of MEO performance) was 86 percent. For more information see Clark F., et. al., *OMB Circular A-76: Post-Competition Accountability in the Department of Defense*, May 2008 (CNA CRM D0017845.A2), pp. 123-124.

number of FTE in its annual PCA reviews. The Navy uses the actual number of FTE to correlate with actual labor costs.

All of the MEOs in our sample reported estimated and actual FTEs in their annual PCA reviews. In two of these cases, estimated FTEs were used in place of actuals (but reported as actuals) because the MEOs were never implemented, but merged with other non-MEO activities and lost their identity. All but one of the MEOs in our sample showed steady declines in the number of FTEs from their first performance period to their third. These decreases were either because functions were eliminated or transferred from the MEO, or because they were unable to fill their positions. With respect to the MEO that showed an increase, additional FTE were authorized and filled because of anticipated workload increases.

## **Workload monitoring**

Cost, performance, and FTEs only portray a portion of the story. Requirements must also be considered. Requirements are identified using both scope and workload. Without good data on workload, and the ability to link workload to cost and performance, a distorted picture of the true health of an organization can occur.

### **Impact of workload on cost and performance**

Consider, for example, a supply activity where the cost and performance of the service provider are tracked and monitored in a timely and complete fashion. Customers who receive the goods or supplies indicate that inventory accuracy is high, supplies are issued quickly (beating performance standards set in the PWS), and the service provider can meet surge requirements effortlessly. Cost monitoring indicates the provider is at or below expected levels. At first glance, it would appear that this service provider is exceptional. However, if it was discovered that the workload associated with this supply activity had dropped 50 percent without a corresponding decrease in cost, our evaluation of the service provider would be less than stellar.

Conversely, suppose we have a service provider who is struggling to stay within costs and is achieving only minimal performance levels.



Both the service provider and the functional manager agree that workload has increased drastically. Unfortunately, without well-documented and relevant workload metrics, it is difficult to tie the increased workload to an increase in costs. Similarly, low performance levels are difficult to justify without sufficient workload information.

## **Linking workload and FTEs to cost and performance**

For most of our case studies, workload and FTE information were being tracked in some fashion. While there were few ties to specific cost and performance standards, by examining cost, workload, and FTEs together, it is possible to draw some broad assessments of whether MEOs were performing effectively or not. These broad assessments may or may not be communicating what is actually transpiring, but they can be used to flag MEOs with potential problems.

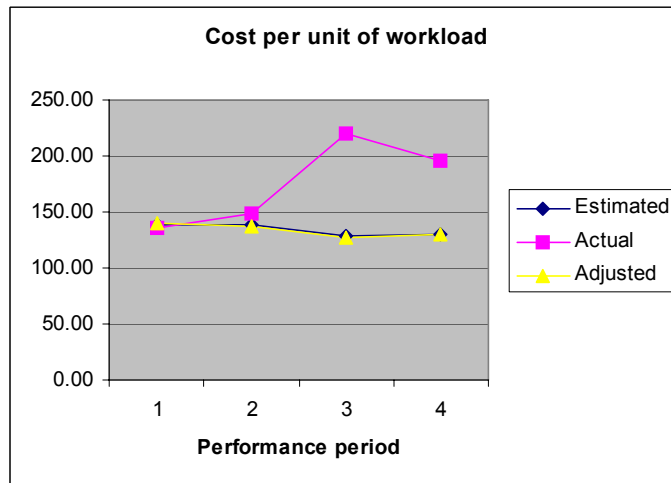
For example, when we look only at the number of actual FTE and actual cost in the following table, it would appear that overall the MEO in question was operating within its bid estimate with fewer FTE than anticipated. It is only when workload data are linked to cost and FTE information that it becomes apparent that, for the last two performance periods, actual costs per unit of workload are significantly higher than expected. This is because, with even 15 and 18 percent fewer FTE respectively than bid, actual workload dropped 46 and 39 percent over the same 2 years. Table 6 provides the numeric data on the MEO.

Table 6. Cost, workload, and FTE levels for competition 1

Period of performance	Start date	End date	FTE		Total costs (000s)			Workload (000s units)		Cost/Workload		
			Bid FTE	Actual FTE	Estimated cost	Adjusted cost estimate	Actual cost	Workload estimate	Workload actual	Estimated	Adjusted	Actual
1	11/1/03	10/31/04	163	149	11,180	11,378	10,620	81	78	138.02	140.47	136.15
2	11/1/04	10/31/05	163	151	11,401	11,293	11,323	82	76	139.04	137.72	148.99
3	11/1/05	10/31/06	163	139	11,462	11,323	10,547	89	48	128.79	127.22	219.73
4	11/1/06	10/31/07	163	133	11,524	11,586	10,531	89	54	129.48	130.18	195.02

Figure 2, below, illustrates this point. What would appear to be a cost-effective operation when evaluating only costs and FTE, actually needs some adjustment. True PCA would envision reducing the number of FTE further to bring it in line with the MEO's actual workload, especially in the fourth performance period, as it was in the second year that anticipated workload failed to materialize.

Figure 2. Cost per unit of workload for competition 1



See appendix B for charts of cost per unit of workload for 6 of the 11 MEO service providers.



## Comparison of NAVDOCS and DCAMIS data

The next step in our analysis was to evaluate the Navy's competitive sourcing management information system. We did this by analyzing how the information in the Navy's data system compares with that in DCAMIS.

### NAVDOCS

NAVDOCS is the Navy's competitive sourcing program management database. It is used to collect the data needed to respond to various statutory and policy requirements, including the Circular's PCA tracking requirements. NAVDOCS is a Microsoft Access-based tool with over 200 users. The fields included in NAVDOCS reflect the fields in DCAMIS, though the two systems are not linked. Each activity is responsible for submitting the required reports on each competition under its purview. The BSOs are responsible for reviewing and approving the reports before final CNO (N1) approval.

A PCA Review Guide must be completed annually for all in-house decisions. This applies to costed periods only. The guide must be completed within 90 days of the conclusion of the performance period. Upon completion, the review guides are uploaded to NAVDOCS via the annual update report. No changes can be made to a record in NAVDOCS without the approval of headquarters. The report has to be reviewed and approved by the BSO point of contact. The oversight to ensure the guides are completed is conducted by N124 with assistance from their support contractor. Once the annual update report is approved by headquarters, the information is cross-pollinated to DCAMIS. N124's support contractor does this manual data entry work with oversight by N124 management.

## DCAMIS

Established in 2000, DCAMIS is a web-based application designed to serve as a single source for tracking information on public-private competitions in DoD. The data captured in DCAMIS are used to answer questions from OSD leadership, OMB, Congress, and the public. Prior to its development, needed data were obtained through regular reports from the field and special data calls.

DCAMIS tracks time-line, cost, and milestone information on all competitions from announcement, to the selection of the service provider, through the end of the last performance period. It includes such data elements as

- the type of competition,
- the status of a competition,
- the type of solicitation,
- the issue and close dates of the solicitation,
- the number of full-time equivalent positions competed,
- the final decision,
- appeals and protests filed,
- the cost comparison data, and
- the cost of the selected service provider's performance.

DCAMIS was originally designed to capture descriptive information on standard and streamlined competitions that were conducted throughout DoD. Under its original design, the only cost information captured in DCAMIS is related to baseline FTE and the expected costs and savings from the SCF/SLCF. Overall, the system could provide users with information on the level of savings they could expect from a specific competition, but its oversight stopped when the performance periods began.

As the government's competitive sourcing program matured, greater demands were placed on measuring post-competition results. Although not designed for these purposes, similar pressures were

placed on DCAMIS to function as both a reporting tool for the results of completed public-private competitions, and as a management tool for tracking costs in a post-competition environment.

In response, additional fields were added and the system was modified to begin tracking post-competition costs. Under this version, contract costs, as well as MEO FTE and subcontract costs, were collected for each performance period. While the total costs associated with MEOs were not captured, MEO FTE and subcontract costs served as a useful proxy.

After the release of the 2003 version of the Circular, DoD was required to maintain a post-competition database and report these data annually to OMB. OMB's cost requirements focused almost exclusively on comparing expected costs to actual or observed costs. OMB does not address effective costs in its comparison. To mirror this requirement, DCAMIS was again modified in 2006 to capture actual contract and MEO costs by SCF/SLCF line item.<sup>21</sup> This revision more closely aligned the tracking of contract and MEO post-competition costs. To date, DCAMIS does not track the performance or workload of the competitions in its database.

The 2006 revisions to DCAMIS resulted in two separate databases containing three separate initiatives (one for post-2003 and two for legacy initiatives). Each initiative has its own data requirements. There are two types (or populations) of legacy initiatives. The first type includes those competitions announced since 1 October 1994, under the provisions of the previous Circular, and having a final decision date before 1 October 2000. Components are only required to populate some of the fields in the original DCAMIS for this type of legacy initiative. The second type of legacy initiative includes those competitions announced between 1 October 1994 and 19 May 2003, under the provisions of the previous Circular, and having a final decision date on or after 1 October 2000. For this type of initiative, components must populate all of the fields in the original DCAMIS. Data

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21. The redesign does consolidate actual costs for SCF/SLCF line 2, 3, and 5 (and pulls out subcontract costs as a separate category).

on legacy initiatives are kept separate from data on competitions announced under the provisions of the 2003 revisions to the Circular.

As implementers of the A-76 program, the DoD Components are responsible for inputting and maintaining the accuracy of the data in DCAMIS. It is considered a “live” system in that it is constantly being updated. Components are required to validate and review each active record on at least an annual basis, but no later than 30 September of each year. Validation and review is also required if and when data in DCAMIS are updated by a Component. Validation means the data in DCAMIS have been physically compared to written documentation in the competition file. Review is accomplished when (1) the Component has approved the data; (2) the data are in compliance with DCAMIS policy; and (3) the data are accurate, complete, reasonable, and consistent with the competition data.

### **The Navy’s process for populating DCAMIS**

After an annual update report is submitted into NAVDOCS, N124’s support contractor is responsible for updating DCAMIS accordingly. Their process involves three steps. First, one staff person updates the DCAMIS record based on the annual update report. Next, a second staff person reviews the changes that have been made to check for accuracy. And third, another staff person validates the changes. The three steps are always done by three separate staff people to ensure accuracy and completeness.

### **How the data compared**

Across the 13 competitions in our sample, we found a grand total of 1,470 items that could be compared. Among these comparable items, we found 320 instances where the data in DCAMIS were inconsistent with the data in NAVDOCS. The vast majority of these inconsistencies, however, were due to one of four things: (1) a decision by Navy management not to populate certain dates fields when DCAMIS came on-line; (2) differences between DCAMIS and NAVDOCS business rules; (3) the use of different function code lists; or (4) an error in the calculation for a field in a report in DCAMIS. There were only a few inconsistencies (49) that did not result from one of these issues.



### **Inconsistencies resulting from policy decisions by Navy management**

A significant number of the inconsistencies we found were in the planned and revised dates fields. When DCAMIS came on-line, Navy management made a decision to focus on populating actual dates in the system. As a result, many of the other date fields were not populated in DCAMIS even though the information is contained in NAVDOCS.

### **Inconsistencies resulting from differences between the DCAMIS and NAVDOCS business rules**

Some inconsistencies in the actual dates fields (i.e., DCAMIS contained an actual date entry but NAVDOCS did not) stemmed from the fact that DCAMIS business rules require certain fields to be populated before the user can move on to populating the next section of DCAMIS. As a result, in cases where a field is not required for a competition (e.g., public review), the Navy chose another milestone date and used it to populate the field. For example, in the case of public review dates, the Navy used tentative decision dates instead.

Differences in business rules for each system also resulted in a significant number of inconsistencies in the fields that contain data on PCA reviews. After data are entered in DCAMIS regarding the dates of the first PCA review, users cannot enter data into DCAMIS for the PCA reviews done in subsequent years. Instead, the Navy has chosen to enter the relevant dates and PCA review findings in the service provider execution comments section in DCAMIS. In addition, DCAMIS does not allow PCA information to be entered in Period 1 fields so the Navy enters the data in Period 2 fields and the outyears comments section.

Finally, as noted earlier, two of the competitions in our sample were consolidated with other competitions after the final decision date. For these two competitions, the UICs, states, and congressional districts listed were inconsistent between the two databases. This is because DCAMIS does not allow the user to change the manpower information after the final decision date has passed. NAVDOCS, however, does allow for these data to be revised.

### **Inconsistencies resulting from the use of different function code lists**

The list of functions competed was inconsistent between the databases for each competition in our sample. In 2001, OSD made significant changes to the list of function codes. In addition, minor changes have been made every year since then. It appears that, at any given point in time, each system uses the most up-to-date list of function codes. However, users do not go back into existing records and change old codes if they are replaced by new ones. This is understandable given the level of effort involved in ensuring that not only is the code updated, but that the appropriate level of manpower is associated with the new code. The result is that the function codes used do not match if the competition was entered into NAVDOCS prior to the creation of DCAMIS since an older set of codes would have been used for the NAVDOCS record, but DCAMIS would require the more recent codes to be used.

### **Inconsistencies resulting from an error in the calculation of a field in a report in DCAMIS**

Nearly every competition in our sample had an inconsistency in the cost comparison period field. Interestingly, each inconsistency was the same—the cost comparison period was listed as 59 months in DCAMIS but 60 months in NAVDOCS. Upon further investigation, we discovered a calculation error in the DCAMIS ad hoc report we were using for our source data. In the report, the dates for the cost comparison period are listed correctly, but the field that calculates the time period was off by one month. This error only appeared in the ad hoc report. The data recorded in DCAMIS was correct and it matched the data in NAVDOCS. During the drafting of this report we contacted the contractor responsible for DCAMIS and the error has been corrected.

### **Remaining inconsistencies**

Only 49 inconsistencies could not be explained by one of these larger issues. During the drafting of this report, we raised these problems with the Navy and we understand that steps are being taken to ensure any errors are corrected. The other inconsistencies we found fall into the following categories:

- Actual dates appear in both databases, but they do not match
- The MEO/ISSA/Contract start date is blank in NAVDOCS, but not in DCAMIS
- Public announcement dates appear in both databases but they do not match
- An initiative start date appears in both databases but they do not match
- Line 13 costs are included in NAVDOCS but are blank in DCAMIS
- Staff hours expended appears in both databases but the numbers do not match
- Estimated cost of initiative appears in both databases but the numbers do not match
- Baseline annual workyears appear in both databases but the numbers do not match
- Phase-in period has an entry in NAVDOCS but is blank in DCAMIS
- Performance period start and end dates are different between the two databases
- A reason for change from bid for total cost is included in NAVDOCS but not in DCAMIS
- DCAMIS reflects that no GAO protests or court actions were taken but NAVDOCS does not give any information on the subject

## **Moving forward**

As noted previously, OSD relies heavily on the data in DCAMIS for obtaining information on ongoing and completed competitions and for responding to various OMB and congressional reporting requirements. DCAMIS is the sole source for these data. Similarly, the Navy relies on NAVDOCS and has put in place a manual system for transferring data from NAVDOCS into DCAMIS. Our analysis shows, how-

ever, that there are fields that are inherently inconsistent between the two databases and that there is also a small number of inconsistencies that are likely the result of human error.

Inconsistencies pose several problems. First, they call into question the accuracy of the inconsistent data in both databases. Without additional analysis, one cannot be sure which data point is correct. Second, from an analysis standpoint, inconsistencies can result in different conclusions being drawn depending on which database is used. For example, if one were to analyze how many times a particular function had been competed, the databases would yield two different results. Even worse would be analysis run on a field that, by choice, contains incorrect data. For example, analysis run on the planned dates fields in DCAMIS would, at least for Navy competitions, produce inaccurate results.

We are not advocating that the Navy ensure complete consistency between the two data sources, especially as this relates to the larger issues that are the source of many of the inconsistencies. Based on our interviews, we believe these inconsistencies are the result of conscious decisions on the part of Navy leadership. We understand these decisions were made knowing that data inconsistencies would result but that the positives outweighed the negatives. It is important that the Navy pay particular attention to these areas of inherent inconsistencies so that, moving forward, individual data elements can be viewed in the correct light. With respect to the other inconsistencies we found, as noted earlier, the Navy is working to correct any errors.

# Are MEOs and contractors being held accountable for costs and performance?

To satisfy OMB's requirement for PCA, it is not enough to simply collect and report actual contract and MEO costs and monitor performance. These data need to be used to ensure that (1) the competitive sourcing process is achieving the projected savings levels, (2) performance is satisfactory, and (3) LOO or contract obligations are being met. To have true accountability, managers must take corrective action if the service provider's performance is lacking or if real cost savings are not being achieved.

The difference between submitting an annual report on cost and performance and true accountability is like the difference between filing income tax returns every year and actively managing the family's budget to stay within its means.

## Interviews

During our interviews with headquarters, BSO, and site-level personnel we asked a series of questions to determine how the PCA data collected in the PCARs and entered into NAVDOCS were being used. For each of the categories of data tracked in NAVDOCS (performance, cost, workload, and FTE), we first asked what happens to the data after they are collected. Next, we asked how the data are used and, specifically, whether the data are used to evaluate the performance of the function and/or to evaluate the performance of individuals in the MEO. We then asked at what organizational level(s) the data are used and what, if any, types of analysis are performed on the data. We also asked whether or not the interviewee felt that NAVDOCS was useful and how it could be modified to be more useful.

The goal of the series of questions was to determine the purpose of the data collection as seen from various perspectives. We also wanted

to see how the data are being used at the BSO and local levels. Specifically, are the data being used:

- to respond to the requirements in the Navy PCA policy and, ultimately, OSD and OMB policy and congressional reporting requirements;
- to track the status of a competition in the areas of cost, performance, workload, and FTE;
- to ensure MEOs are performing at the cost, performance, workload, and FTE levels outlined in the PWS or LOO;
- to provide decision-makers with the information necessary to take corrective action in the event of MEO noncompliance with the provisions of the PWS and agency bid;
- to provide policy-makers with the data necessary to evaluate the Navy's PCA program and make changes to improve implementation;
- to accomplish a combination, or all, of the above.

## Case studies

Our research indicates that most of the post-competition performance and cost tracking efforts are centered on the collection and reporting of data. This is true at both the installation and BSO levels. The cost and performance information collected was only used by four MEOs to routinely or regularly assess its internal management. For the most part, PCA data were collected mainly to satisfy the annual PCAR (and DCAMIS) reporting requirements.

Our interviews highlighted that the way the data were being used varied by level in the chain of command and by site and BSO. At the local level, the data were used almost exclusively to respond to the Navy's PCA requirements. The PCAR was completed as required and simply forwarded to the BSO. In a few circumstances the MEO project manager also used the data to provide feedback to the MEO regarding performance. We found no instances of the data being used as part of individuals' performance evaluations.

At the BSO level, we found a wide array of approaches to using the data. On one end of the spectrum were BSOs that served as pass-throughs for the PCARs. In these cases, the competitive sourcing program manager would check to make sure the report was complete and then he/she would pass it along to N124. Little effort was made to analyze the data and provide oversight. On the other end of the spectrum were BSO project managers who not only reviewed and analyzed the information in the PCARs, but also used those data to better manage the MEOs and the program.

As stated earlier, the Navy guidance indicates that MEOs found to be significantly underperforming or exceeding cost estimates may be selected for a CNO-sponsored review. However, there is inconsistency among BSOs in ensuring that corrective action is taken in the event the data collected indicate that an MEO is not conforming to the cost and performance standards.

We did see one case where a contractor failed to perform to the standards in the contract. In that case (Competition 2), the contract was recompeted due to poor performance. Before the end of the base year, the decision was made to recompet the contract and it resulted in a change in service provider. The performance data gathered were used to support this decision.

Another example of data, or in this case a lack of data, being used to better manage is Competition 12. After submission of the PCAR for the first period of performance, a 90-day follow-up review was conducted to address several deficiencies in the PCAR.<sup>22</sup> These included: (1) no evidence that the non-labor costs were captured; (2) no documentation of actual workload; (3) failure to implement the (Quality Control Plan) QCP and QASP; and (4) failure to fully implement the transition plan. As a result of this, performance data were gathered for the third performance period. However, it was done on just a sample of functions. In addition, the sample of functions used to gather data is different for each period of performance. As a result,

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22. Memorandum for the Record, "Follow-Up Review of Outstanding Issue From the 1st Performance Period of [competition name and number omitted]," 14 June 2006.

meaningful comparisons with the PWS and across periods of performance cannot be conducted.

During our site-visit interviews and during our review of the data in NAVDOCS, we did see some examples of PCARs being returned to the installation, either by the BSO or by N124, for revision or to provide further information before the PCAR was finalized. This practice was also cited by the N124 support contractor during our meeting with them on the NAVDOCS system. We also saw examples of N124 alerting MEOs regarding the need to establish a process for gathering data that weren't submitted. But, ultimately, we found that, for the competitions in our non-random sample, MEO performance was not terminated due to lack of compliance with the established PCA guidance. This is consistent with our analysis of the cost and performance data which found numerous examples of competitions with incomplete data.

This is in contrast to the manner in which contractor decisions are monitored. Contractor oversight is a very detailed process that has a series of steps to be taken in the event a contractor fails to perform or control costs. Short of conducting a recompetition, there is no guidance detailing how the BSOs should respond to an MEO who fails to perform. Rather, the guidance is limited to what data should be collected and forwarded to NAVDOCS and OSD.



## Conclusions and recommendations

After reviewing the Navy's system and procedures for ensuring PCA and looking at the PCA practices in 13 case studies, we have reached the following conclusions.

### Conclusions

#### **The Navy is pursuing a “separate but similar” approach to PCA that meets OMB and DoD PCA requirements**

The Navy has separate systems for monitoring the performance of its contracts and MEOs. Contracts awarded as a result of a public-private competition are monitored using its pre-existing system for contract administration as prescribed by the FAR. The Navy has established a separate, comprehensive, Department-wide system to monitor MEO implementation.

The system for monitoring MEOs requires that managers continually monitor the performance of their MEOs and submit an annual report documenting the status of each MEO based on the following four key parameters:

- cost,
- performance,
- workload, and
- FTE levels.

#### **The Navy's process exceeds OMB's requirements for reporting cost and performance information**

This approach meets both OMB's and DoD's requirements to monitor and report the cost and performance results of competitive sourc-

ing. It exceeds these requirements in that it also requires managers to validate workload and monitor FTE levels. It also gives BSO competitive sourcing program, installation, and MEO managers the tools to effectively monitor and evaluate the success of each MEO or contract.

### **PCA has improved significantly since 2003**

Our earlier reports, beginning in 2001 and continuing through 2003, consistently found that managers were not holding MEOs accountable for meeting the cost and performance requirements in their bids. At that time, none of the Navy MEOs we reviewed routinely tracked MEO cost or performance. Our review of the 11 MEOs in this study indicate that all of them are documenting their costs on an annual basis and most are monitoring performance.

### **Some managers are not holding MEOs accountable in their day-to-day operations**

Documenting costs and performance in an annual report should not be confused with true accountability. True accountability requires that managers evaluate these costs and performance levels on a continuous basis and take corrective action when necessary. They need to review the data they collect and use them to make sound financial decisions and improve the quality of work.

In reviewing the 11 MEOs in our sample, we found instances where quality control and quality assurance were not being performed, performance data were not reported or evaluated, and adjustments or corrections were not made when cost, staffing, or performance requirements were in danger of not being met. Many managers focus on monitoring and assessing FTE levels, and workload and labor hour distributions, rather than on costs or performance levels. Both types of monitoring are necessary for successful operations and one should not be done to the exclusion of the other.

Navy guidance requires corrective action at the local level, notification to the BSO and headquarter level in the event of unsatisfactory performance, and headquarter-level reviews if an MEO continues to perform unsatisfactorily. In our study, we found little evidence that this is actually occurring.

## Differences among BSOs

Based on our review of the 13 case studies, we found some similarities and differences in the way in which the BSOs are accomplishing the PCA requirements. All of the BSOs received, approved, and submitted the PCARs for MEOs within their organization to NAVDOCS. However, the level of review and effort that went into that process differed by BSO. Some BSOs acted mainly as a pass-through for the PCA reports. Other BSO project managers reviewed and analyzed the data, and in some cases requested the report be modified prior to submission. With respect to changes to the PWS or LOO, some BSOs have imposed rigorous requirements for submitting proposed PWS or LOO changes, while other BSOs' reviews are more pro forma. Finally, few of the BSOs evaluate cost and performance data and take corrective actions when necessary.

## **Most of the inconsistencies between data elements in DCAMIS and NAVDOCS were the result of several overarching issues, though some true data errors were found**

For the 13 competitions in our sample, there were 1,470 comparable items. Our analysis found 320 where the data in DCAMIS were inconsistent with the data in NAVDOCS. The vast majority of these inconsistencies were the result of four overarching issues, only 49 are likely true errors.

We are not advocating that the Navy ensure complete consistency between the two data sources, especially as this relates to the larger issues that are the source of many of the inconsistencies. Based on our interviews, we believe these inconsistencies are the result of conscious decisions made by Navy leadership. We understand they made these decisions knowing that inconsistencies would result, but that the positives outweighed the negatives. It is important that the Navy pay particular attention to these areas of inherent inconsistencies so that, moving forward, individual data elements can be viewed in the correct light. With respect to the other inconsistencies we found, the Navy is working to correct any errors.

## **Little guidance exists on how to resolve implementation and monitoring issues when contracts or MEOs conflict with the implementation of other Navy initiatives**

We encountered several instances where functions were being competed or implemented at the same time that other Navy initiatives were being developed and implemented. As a consequence, MEOs were not implemented or significantly changed when the two efforts conflicted. This also created reporting difficulties regarding whether or how to report cost and performance data. Little guidance is available on how to coordinate efforts so the conflicts don't occur or, if they do occur, which initiatives take precedence and how to report on the resultant MEOs or contracts.

## **Insufficient training in performance monitoring**

While the Navy provides training on how to conduct annual PCA reviews, little training has been provided to MEO managers and evaluators on how to monitor performance on a day-to-day basis. We found that managers often don't understand the difference between quality control and quality assurance. This type of training is routinely provided to contract managers and quality assurance evaluators throughout DoD. Several organizations currently have training that could be useful to the Navy.

## **No guidance is available on the validation of MEO cost and performance**

OMB's recent requirement to validate a certain percentage of MEOs<sup>23</sup> will require additional guidance. Though the Navy is providing some measure of the MEO validation required by OMB when PCARs are performed by independent third parties, neither DoD nor the Navy has issued formal guidance specifying how the validation is to be accomplished.

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23. Executive Office of the President Memorandum entitled "Validating the Results of Public-Private Competition," 13 April 2007.

## **Recommendations**

As a result of our review, we identified several actions that the Navy can take to improve PCA and fulfill OMB's monitoring, validation, and reporting requirements.

### **Assurance that cost data are adjusted for each performance period is needed**

Those MEOs that are not adjusting their cost estimates at the beginning of the year should be required to do so. Unadjusted estimates provide a distorted view of whether the MEO is staying within costs. Checking to ensure that cost estimates have been adjusted should be part of the BSO's annual review before the PCAR is submitted to NAVDOCS and subsequently to OSD.

### **Performance tracking should be improved**

Performance tracking and accountability needs to be improved. For example, sampling only a portion of the services that an MEO is required to provide gives an incomplete picture of overall performance and should be discontinued. The QASP needs to cover all services and the QASP needs to be implemented. Secondly, managers should be using performance data in their day-to-day monitoring of the MEO, and corrective actions need to be taken if the MEO is not performing adequately.

### **Training in performance monitoring is needed**

The training should focus on how to monitor the quality and timeliness of MEO performance using the PWS, LOO, and QASP as the foundation for the monitoring system put in place. The Navy should explore using the currently available training detailed in this report rather than developing new training in this area.

### **Attention needs to be paid to the areas of inherent inconsistency between NAVDOCS and DCAMIS data elements**

Particular attention needs to be paid to the inherent inconsistencies in the NAVDOCS and DCAMIS data to prevent incorrect conclusions

from being drawn. Any true errors we uncovered should be corrected.

## **Guidance is needed in three areas:**

### **Validation of MEO cost and performance**

The Navy should provide guidance to its BSOs on how MEO cost and performance data should be validated. The guidance should address who should conduct the validations in order for them to be independent and objective; what percentage of MEOs need validation; what the timing of the validations should be, especially with respect to preparing annual PCA reviews; and what corrective actions are needed in the event that the data cannot be validated.

### **Addressing potential conflicts in management initiatives**

The Navy's PCA Review Guide provides guidance on accounting for the addition and deletion of positions in an MEO as a result of reorganization, or changes in scope, workload, or requirements. However, it has not proven to be helpful when an MEO cannot be implemented or is implemented only in part because of competing management initiatives. This is especially true when the MEO or a portion of the MEO is then combined with non-MEO activities or functions. These potential conflicts can be resolved during the preliminary planning process by deciding how known initiatives interrelate and which take priority before deciding the final scope of the PWS.

### **Determining and using the appropriate number of QAEs.**

Our review found no consistency among MEOs on the number of QAEs that were used to monitor performance. The Navy needs to develop a methodology for determining how many QAEs are needed to monitor a given MEO, and it should apply this methodology consistently throughout the Service.

## **Improve cost visibility**

The Navy should consider improving the cost visibility of its MEOs (and HPOs or other efficiency alternatives when they are established)

by creating separate budgets and accounting codes for these entities. This can improve the identification of all relevant costs and provide more effective cost control. In addition, it may make MEOs less susceptible to arbitrary or installation-wide budget reductions.





# Appendix A: Methodology

We examined the Navy's PCA practices using a four-phased process:

1. We examined OMB, OSD, Navy, and BSO policies and procedures on PCA to identify PCA requirements and guidance. This included a review of the Navy's PCAR training.
2. We evaluated PCA guidance and procedures at the BSO level.
3. We conducted case studies of 13 specific public-private competitions to document how these requirements and guidance were implemented. This included interviews at the BSO level, as well as installation level visits to interview local officials and collect PCA data.
4. We examined the Navy's system for collecting and reporting cost and performance data. This included meeting with N124's support contractor.

## Examine OMB, DoD, and Navy policies and procedures on PCA

We began our examination of PCA at the OSD level with an examination of the requirements in the Circular and the additional OMB guidance and laws on PCA. We also examined the Navy's guidance on PCA, including their procedures for completing the review documents and for populating NAVDOCS.

## BSO-level PCA analysis

To determine if there were differences by BSO in how costs and performance were tracked, we interviewed BSO-level officials. The purpose was to determine if the BSOs had issued any additional guidance, how the BSOs used the information that was tracked, and

what steps were in place to address any competitions that had high costs or low performance when implemented.

## **Case studies**

The BSO-level analysis was followed by an in-depth review of a selected sample of 13 competitions. Table 1 summarizes them. We selected competitions from those that were implemented within the past 5 years and had at least 1 year of operational data. The competitions covered a cross-section of commercial activities and represented performance decisions in favor of both the MEO and contractor. While we attempted to select typical or representative competitions, several of the competitions were selected for their unique aspects and therefore had limited applicability in evaluating Navy-wide PCA practices.

A primary goal of the case studies was to get a broad view of post-competition activities within the Navy. Although the competitions selected do not represent a statistical sample of the competitions conducted in the selected time frame, they do represent a broad range of activities. They consist of 2 contract decisions and 11 MEO decisions and represent 7 of the 20 Navy BSOs.

## **Comparison of NAVDOCS and DCAMIS data**

The next step in our analysis was to evaluate the Navy's competitive sourcing management information system. In order to understand better how the data are gathered and the system is populated, we met with N124's support contractor who is responsible for the NAVDOCS system. We then analyzed how the information in the Navy's data system compares with that in DCAMS.

## **Data analysis**

Once we gathered the relevant data from our analysis of the DoD, Navy, and BSO-level guidance, the 13 case studies, and our review of the NAVDOCS system, we analyzed them to identify any broad PCA

trends that were occurring, or policy issues that needed addressing within the Navy.



## Appendix B: Cost, workload, and FTE charts for MEO service providers

### Competition 1

Figure 3. Cost, workload, and FTE data for competition 1

End date	FTE		Total Costs (000s)			Workload (000s units)		Cost/Workload		
	Bid FTE	Actual FTE	Estimated cost	Adjusted cost estimate	Actual cost	Workload estimate	Workload actual	Estimated	Adjusted	Actual
10/31/2004	163	149	11,180	11,378	10,620	81	78	138.02	140.47	136.15
10/31/2005	163	151	11,401	11,293	11,323	82	76	139.04	137.72	148.99
10/31/2006	163	139	11,462	11,323	10,547	89	48	128.79	127.22	219.73
10/31/2007	163	133	11,524	11,586	10,531	89	54	129.48	130.18	195.02

Figure 4. Cost per unit of workload for competition 1

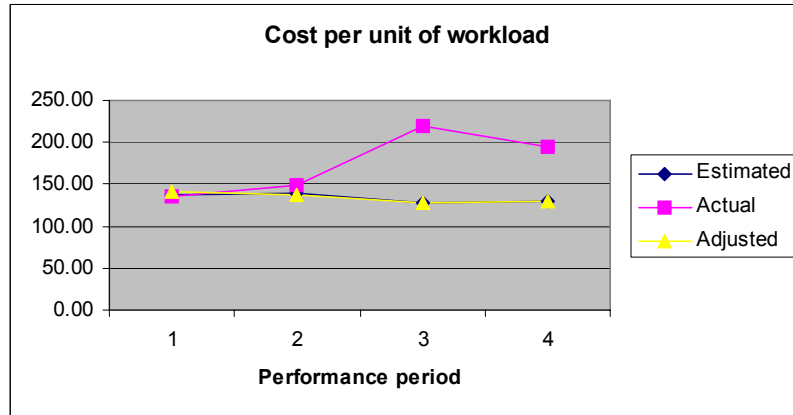


Figure 5. Changes in FTE for competition 1

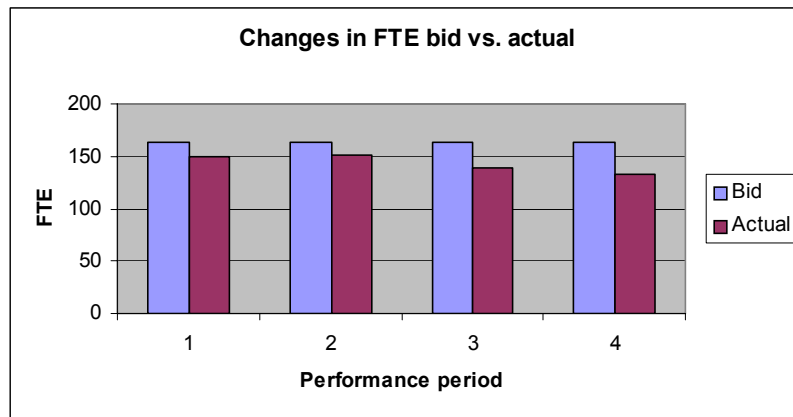
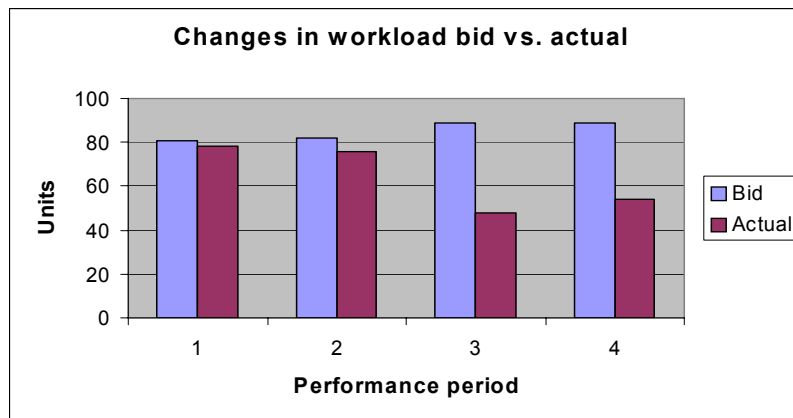


Figure 6. Changes in workload for competition 1



## Competition 3

Figure 7. Cost, workload, and FTE data for competition 3

PP	Start date	End date	Bid FTE	Actual FTE	Total costs (000s)			Workload (000s units)		Cost/Workload		
					Estimated cost	Adjusted cost estimate	Actual cost	Workload estimate	Workload actual	Estimated	Adjusted	Actual
1	2/8/2004	2/7/2005	43	27	1,602	1,485	1,330	786	258	2.04	1.89	5.16
2	2/8/2005	2/7/2006	43	24	1,656	1,520	1,103	1,420	679	1.17	1.07	1.62
3	2/8/2006	2/7/2007	43	22	1,660	1,570	1,034	1,420	607	1.17	1.11	1.70
4	2/8/2007	2/7/2008	43	29	1,663	1,851	1,242	1,420	665	1.17	1.30	1.87

Figure 8. Cost per unit of workload for competition 3

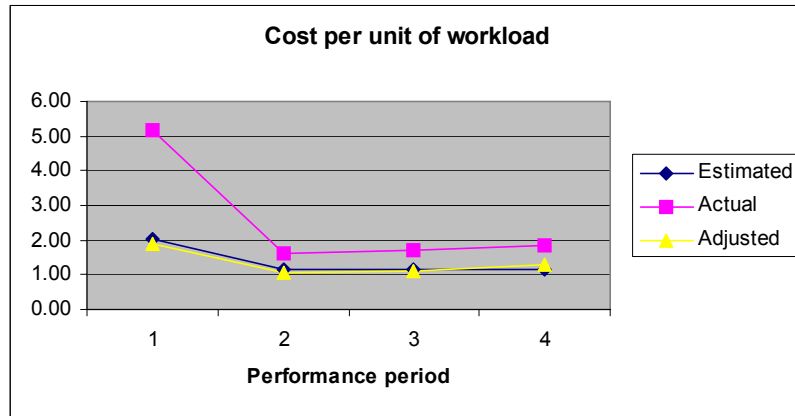


Figure 9. Changes in FTE for competition 3

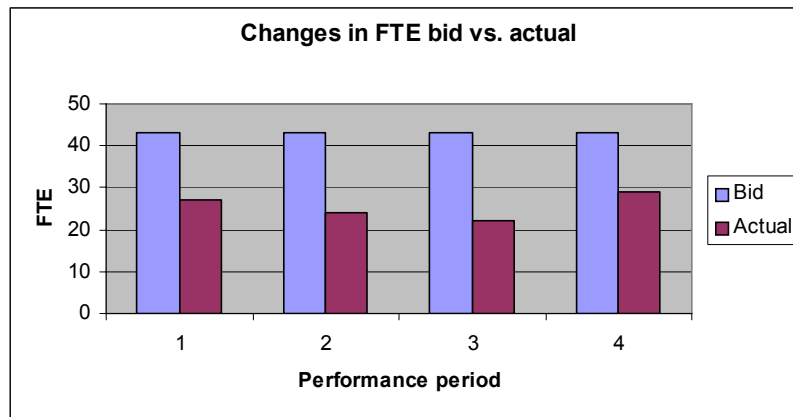
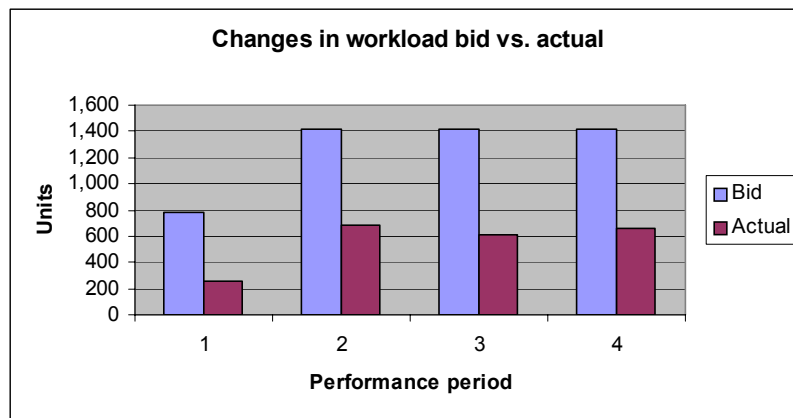


Figure 10. Changes in workload for competition 3





## Competition 5

Figure 11. Cost, workload, and FTE data for competition 5

PP	Start date	End date	Bid FTE	Actual FTE	Total costs (000s)			Workload (000s units)		Cost/Workload		
					Estimated cost	Adjusted cost estimate	Actual cost	Workload estimate	Workload actual	Estimated	Adjusted	Actual
1	4/18/2005	5/17/2005	185	3	*	*	18	*	*	*	*	*
2	5/18/2005	5/17/2006	185	139	9,885	12,092	12,092	1,574	1,583	6.28	7.68	7.64
3	5/18/2006	5/17/2007	185	166	11,949	13,817	14,522	2,439	2,285	4.90	5.67	6.36
4	5/18/2007	5/16/2008	185	148	13,286	15,455	15,451	2,326	2,487	5.71	6.64	6.21

\* Because the 1st PP was so short, no PCAR was completed.

Figure 12. Cost per unit of workload for competition 5

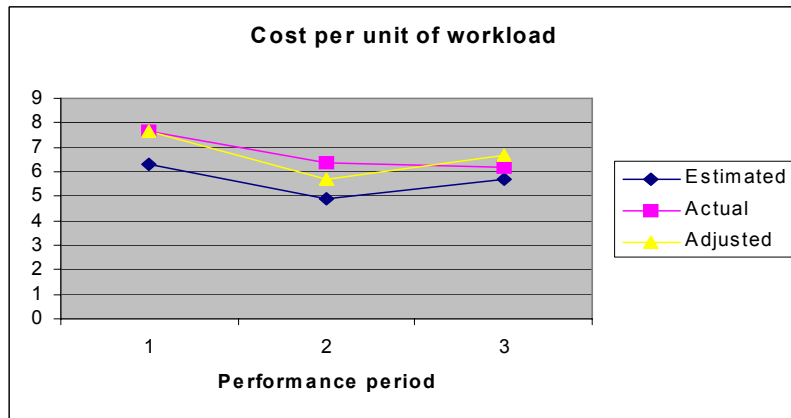


Figure 13. Changes in FTE for competition 5

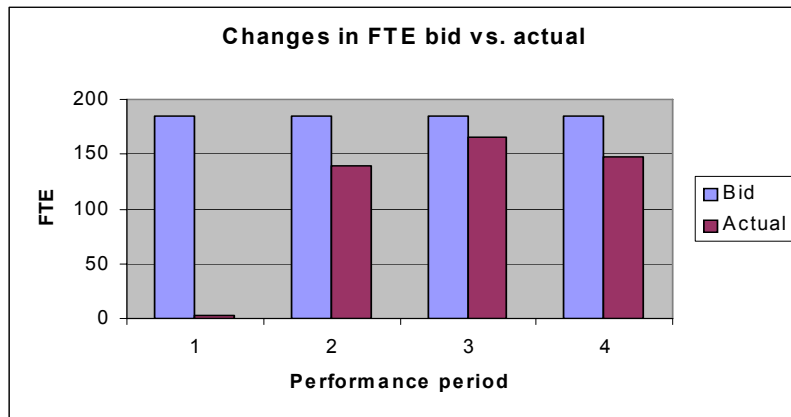
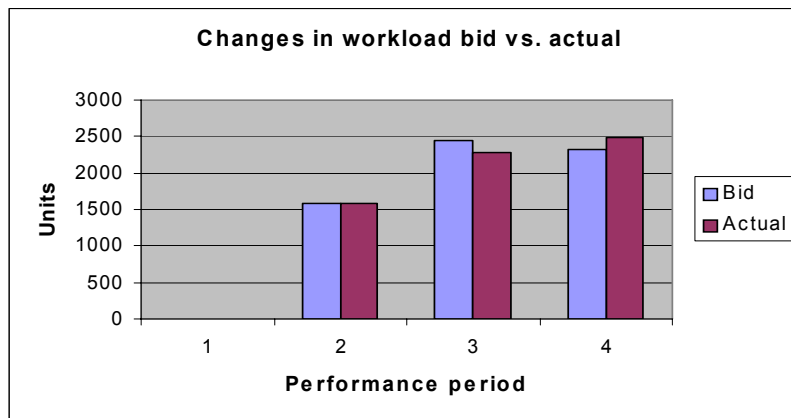


Figure 14. Changes in workload for Competition 5



## Competition 6

Figure 15. Cost, workload, and FTE data for competition 6

PP	Start date	End date	Bid FTE	Actual FTE	Total costs (000s)			Workload (000s units)		Cost/Workload		
					Estimated cost	Adjusted cost estimate	Actual cost	Workload estimate	Workload actual	Estimated	Adjusted	Actual
1	1/18/2005	1/17/2006	18	12	951	727	691	*	*	*	*	*
2	1/18/2006	1/17/2007	18	12	945	996	944	7	10	135.00	142.29	94.40
3	1/18/2007	1/17/2008	18	12	971	799	820	7	6	138.71	114.14	136.67

\* Workload data not collected

Figure 16. Cost per unit of workload for competition 6

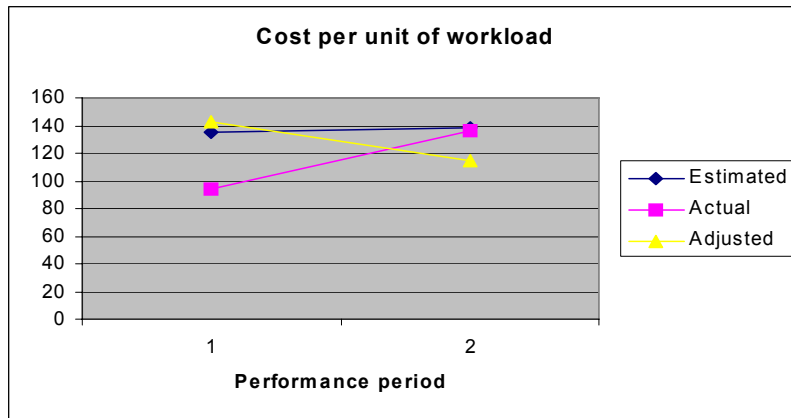


Figure 17. Changes in FTE for competition 6

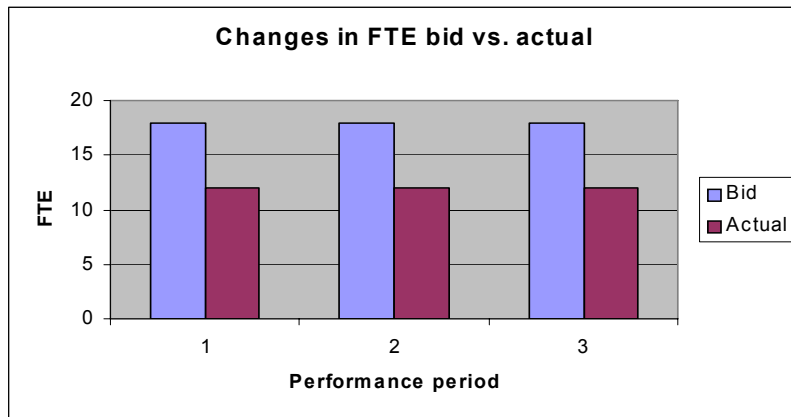
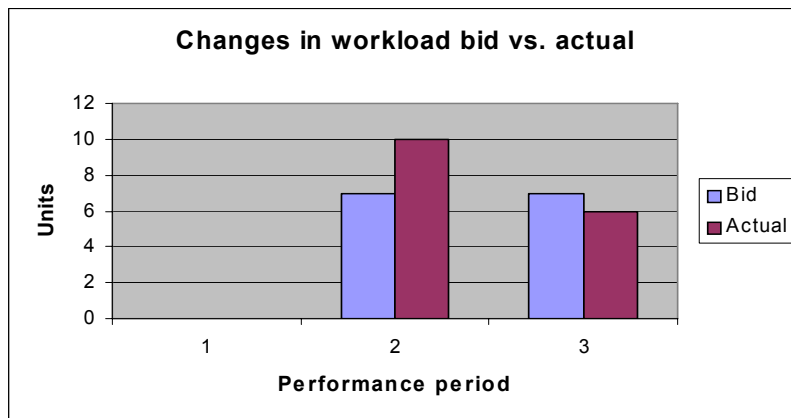


Figure 18. Changes in workload for competition 6



## Competition 7

Figure 19. Cost, workload, and FTE data for competition 7

PP	Start date	End date	Bid FTE	Actual FTE	Total costs (000s)			Workload (000s tasks)		Cost/Workload		
					Estimated cost	Adjusted cost estimate	Actual cost	Workload estimate	Workload actual	Estimated	Adjusted	Actual
1	4/1/2003	9/30/2003	73	69	*	*	*	*	*	*	*	*
2	10/1/2003	9/30/2004	73	48	3,337	**	2,595	103	98	32.40		26.48
3	10/1/2004	9/30/2005	73	12	4,907	458	432	103	21	47.64	4.45	20.57
4	10/1/2005	9/30/2006	73	10	4,925	405	405	103	15	47.82	3.93	27.00
5	10/1/2006	9/30/2007	73	8	4,945	396	396	103	13	48.01	3.84	30.46
6	10/1/2007	4/1/2008	73	6	*	*	*	*	*	*	*	*

\*There is no PCAR for the 1st or 6th PP.

Figure 20. Cost per unit of workload for competition 7

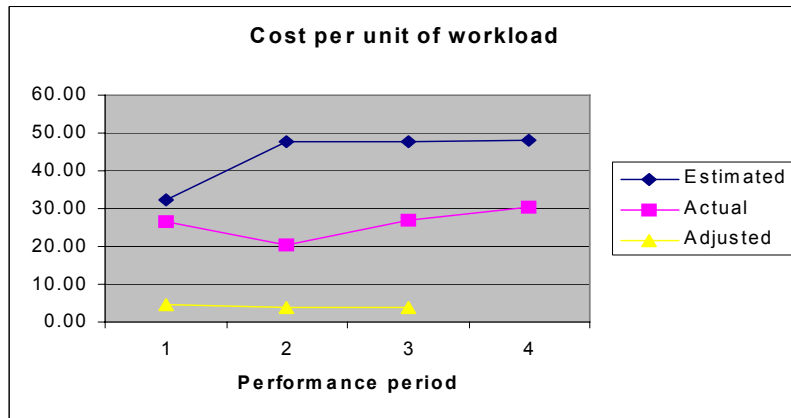


Figure 21. Changes in FTE for competition 7

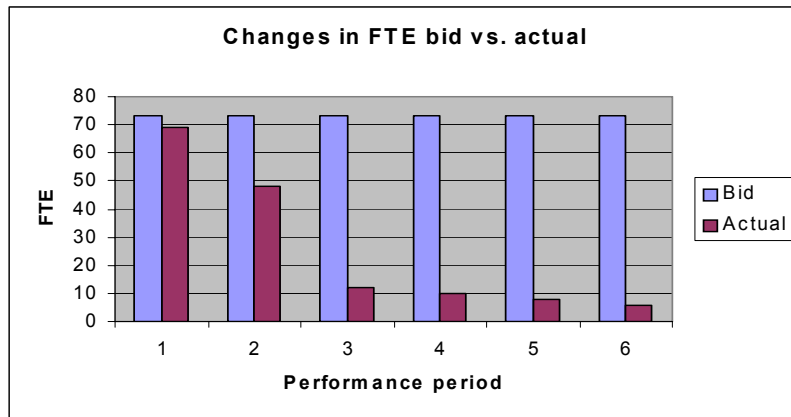


Figure 22. Changes in workload for competition 7



## Competition 8

Figure 23. Cost, workload, and FTE data for competition 8

PP	Start date	End date	Bid FTE	Actual FTE	Total costs (000s)			Workload (000s hours)		Cost/Workload		
					Estimated cost	Adjusted cost estimate	Actual cost	Workload estimate	Workload actual	Estimated	Adjusted	Actual
1	8/23/2005	8/22/2006	31	31	1,991	1,711	1,711	55	54	36.20	31.11	31.69
2	8/23/2006	8/22/2007	31	28	1,991	2,340	2,415	55	51	36.20	42.55	47.35
3	8/23/2007	8/22/2008	31	26	2,447	2,447	2,336	55	48	44.49	44.49	48.67

Figure 24. Cost per unit of workload for competition 8

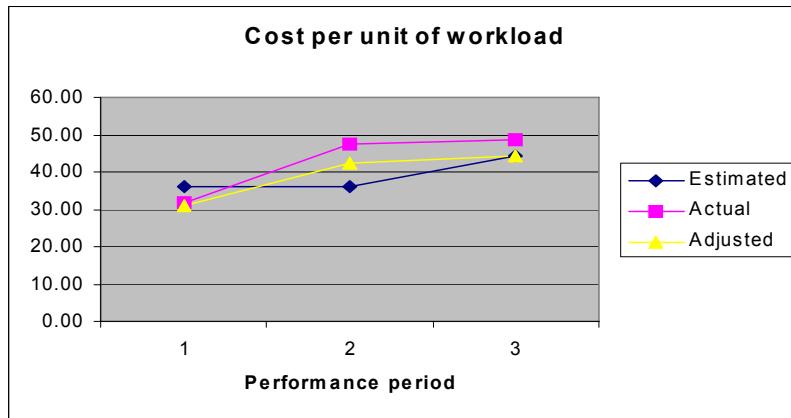


Figure 25. Changes in FTE for competition 8

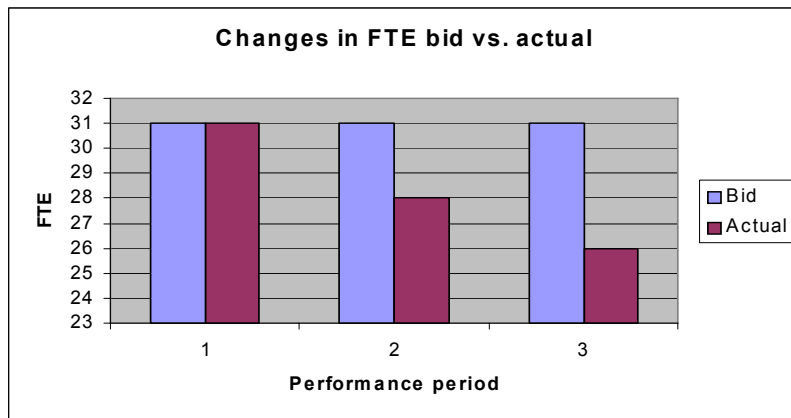
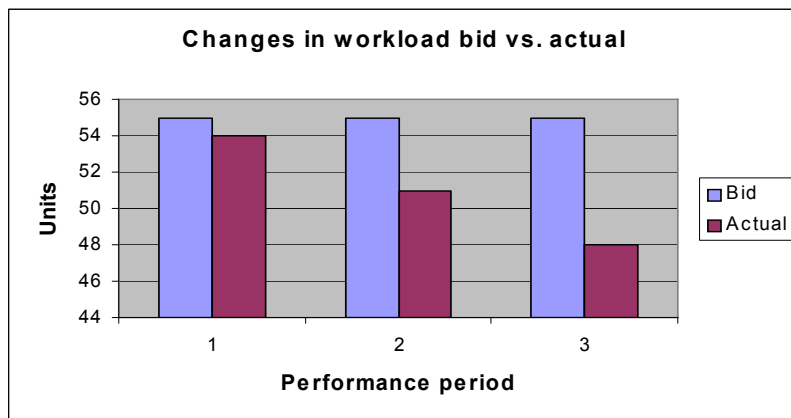


Figure 26. Changes in workload for competition 8





## Competition 9

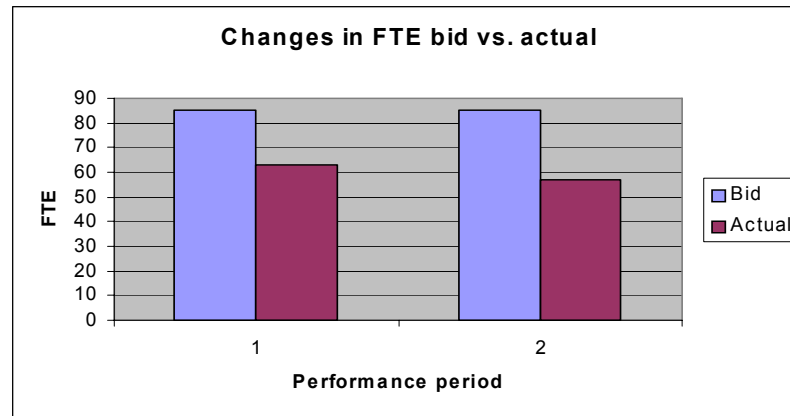
Figure 27. Cost, workload, and FTE data for competition 9

PP	Start date	End date	Bid FTE	Actual FTE	Total costs (000s)			Workload (000s units)		Cost/Workload		
					Estimated cost	Adjusted cost estimate	Actual cost	Workload estimate	Workload actual	Estimated	Adjusted	Actual
1	10/1/2004	9/30/2005	85	63	3,837	**	2,492*	*	*	*	*	*
2	10/1/2005	9/30/2006	85	57	3,844	**	2,095*	*	*	*	*	*

\* Workload data not collected

\*\* Adjusted costs were not computed

Figure 28. Changes in FTE for competition 9



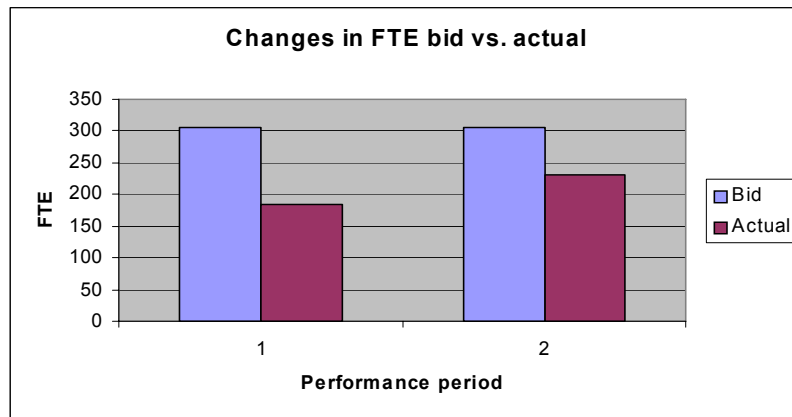
# Competition 10

Figure 29. Cost, workload, and FTE data for competition 10

PP	Start date	End date	Bid FTE	Actual FTE	Total costs (000s)			Workload (000s units)		Cost/Workload		
					Estimated cost	Adjusted cost estimate	Actual cost	Workload estimate	Workload actual	Estimated	Adjusted	Actual
1	10/1/2005	9/30/2006	306	184	19,468	19,468	9,384	*	*	*	*	*
2	10/1/2006	9/30/2007	306	231	16,317	16,317	14,251	*	*	*	*	*

\* Workload data not collected

Figure 30. Changes in FTE for competition 10



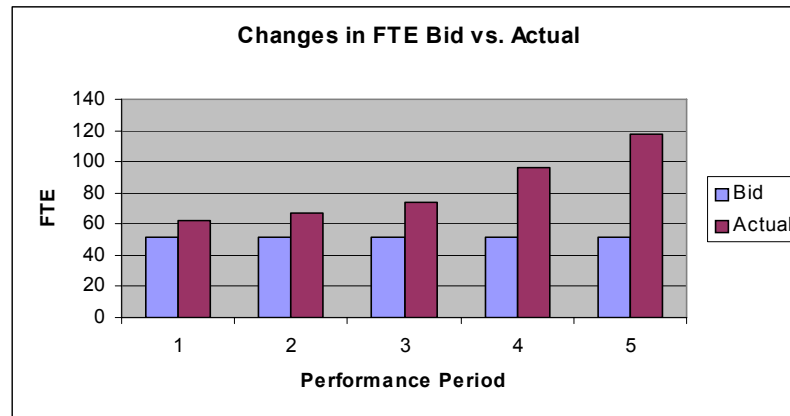
# Competition 11

Figure 31. Cost, workload, and FTE data for competition 11

PP	Start date	End date	Bid FTE	Actual FTE	Total costs (000s)			Workload (000s units)		Cost/Workload		
					Estimated cost	Adjusted cost estimate	Actual cost	Workload estimate	Workload actual	Estimated	Adjusted	Actual
1	7/1/2004	9/30/2004	52	62	2,943	3,176	1,944	*	*	*	*	*
2	10/1/2004	9/30/2005	52	67	6,579	8,200	7,763	*	*	*	*	*
3	10/1/2005	9/30/2006	52	74	6,622	9,554	9,144	*	*	*	*	*
4	10/1/2006	9/30/2007	52	96	6,667	12,281	11,555	*	*	*	*	*
5	10/1/2007	9/30/2008	52	118	6,718	7,462	14,378	*	*	*	*	*
6	10/1/2008	6/30/2009	52	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

\*Can't use workload data because they sampled a different task for each PP. As a result, one can't compare across PPs and the costs WRT workload don't make sense.

Figure 32. Changes in FTE for competition 11



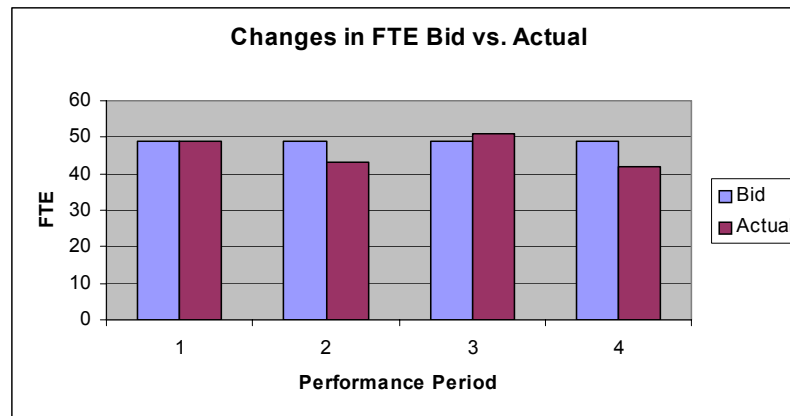
## Competition 12

Figure 33. Cost, workload, and FTE data for competition 12

PP	Start date	End date	Bid FTE	Actual FTE	Total costs (000s)			Workload (000s units)		Cost/Workload		
					Estimated cost	Adjusted cost estimate	Actual cost	Workload estimate	Workload actual	Estimated	Adjusted	Actual
1	3/1/2005	5/31/2005	49	49	710	710	701*	*	*	*	*	*
2	6/1/2005	5/31/2006	49	43	2,843	2,843	2,652	70	47	40.61	40.61	56.43
3	6/1/2006	5/31/2007	49	51	2,852	2,852	2,606*	*	*	*	*	*
4	6/1/2007	5/31/2008	49	42	2,863	2,863	2,035*	*	*	*	*	*

\*Only one PCAR was conducted (for PP 2).

Figure 34. Changes in FTE for competition 12



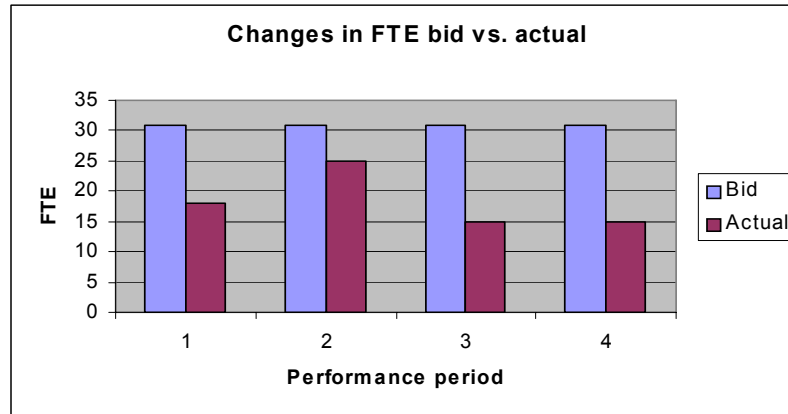
# Competition 13

Figure 35. Cost, workload, and FTE data for competition 13

PP	Start date	End date	Bid FTE	Actual FTE	Total costs (000s)			Workload (000s units)		Cost/Workload		
					Estimated cost	Adjusted cost estimate	Actual cost	Workload estimate	Workload actual	Estimated	Adjusted	Actual
1	2/1/2005	9/30/2005	31	18	1,363	**	1,199	*	*	*	*	*
2	10/1/2005	9/30/2006	31	25	2,046	**	1,718	*	*	*	*	*
3	10/1/2006	9/30/2007	31	15	2,058	**	1,670	*	*	*	*	*
4	10/1/2007	9/30/2008	31	15	2,072	**	1,248	*	*	*	*	*

\*The workload data that exists uses a sampling of only some tasks rather than all required tasks and the sampling was different for each PP so comparisons can't be made across PPs.

Figure 36. Changes in FTE for competition 13





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