
November 22, 2005



Defense Infrastructure

DoD Reporting System for the
Competitive Sourcing Program
(D-2006-028)

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Acronyms

DCAMIS	DoD Commercial Activities Management Information System
FAR	Federal Acquisition Regulation
IG	Inspector General
MEO	Most Efficient Organization
OMB	Office of Management and Budget
PPIRS	Past Performance Information Retrieval System



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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November 22, 2005

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE
(INSTALLATIONS AND ENVIRONMENT)
DIRECTOR, DEFENSE PROCUREMENT AND
ACQUISITION POLICY

SUBJECT: Report on DoD Reporting System for the Competitive Sourcing Program
(Report No. D-2006-028)

We are providing this report for review and comment. We performed this audit to provide additional information on the system used to track and assess the cost and quality of performance functions under the competitive sourcing program required by section 328, "Competitive Sourcing Reporting Requirement," of Public Law 108-375, the "Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005." We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Director, Defense Procurement and Acquisition Policy, comments were responsive. The Deputy Under Secretary of Defense (Installations and Environment), comments were partially responsive. Therefore, we request that the Deputy Under Secretary of Defense (Installations and Environment), provide additional comments on Recommendations A.1. and A.3. by January 23, 2006.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Audcm@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Henry F. Kleinknecht at (703) 604-9324 (DSN 664-9324) or Ms. Anella J. Oliva at (703) 604-9323 (DSN 664-9323). See Appendix D for the report distribution. The team members are listed inside the back cover.

A handwritten signature in black ink, reading "Richard B. Jolliffe".

Richard B. Jolliffe
Acting Deputy Inspector General
for Auditing

Department of Defense Office of Inspector General

Report No. D-2006-028

November 22, 2005

(Project No. D2004-D000CH-0187)

DoD Reporting System for the Competitive Sourcing Program

Executive Summary

Who Should Read This Report and Why? Defense officials responsible for Office of Management and Budget (OMB) Circular No. A-76 (Revised) "Performance of Commercial Activities," (OMB Circular A-76), public-private competitions should read this report because it provides information on the reliability of the DoD Commercial Activities Management Information System (DCAMIS) that is used to track the cost of the public-private competitions. Also, this report addresses the need for a system to track the performance of the most efficient organization (MEO).

Background. Section 328, "Competitive Sourcing Reporting Requirement," of Public Law 108-375, "Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005," October 28, 2004, requires the Inspector General of the Department of Defense to issue a report to Congress addressing whether DoD has implemented a comprehensive and reliable system to track and assess the cost and quality of the performance of functions of the DoD by service contractors. On January 31, 2005, the Inspector General reported that DoD had not implemented a comprehensive and reliable system. This audit report provides additional information on the system used to track and assess the cost and quality of performance of functions under the competitive sourcing program.

On May 29, 2003, OMB issued a revised OMB Circular A-76 which establishes Federal policy regarding the performance of recurring commercial activities. The "Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001," Public Law No. 106-398, section 354, subsection 2461a, establishes the requirement for a system to monitor cost savings resulting from workforce reductions. Specifically, the system was to be designed to compare both the cost of the function prior to competition with the actual cost incurred after implementing the competition decision and the anticipated savings with the actual savings. On November 15, 2002, DoD implemented the Web-based database DCAMIS as the official DoD source of competitive sourcing data to meet legal and program management responsibilities. As of June 22, 2004, DCAMIS showed 135 competitions categorized as "completed" during FY 2003. The 135 completed competitions reported approximately \$900 million in "estimated savings" for all performance periods competed. DCAMIS was not set up to track the quality of contractor and MEO performance. However, the Past Performance Information Retrieval System (PPIRS) collects, reports, and tracks the quality of performance for service provided by contractors and retains past performance reports on contractors for the entire Federal Government.

Results. DoD had not effectively implemented a system to track and assess the cost of the performance of functions under the competitive sourcing program because system users entered inaccurate and unsupported costs, did not always maintain supporting documentation for key data elements, and the Army, Navy, and Air Force used different

methodologies to calculate baseline costs. The overall costs and the estimated savings of the competitive sourcing program may be either overstated or understated. In addition, legislators and Government officials were not receiving reliable information to determine the costs and benefits of the competitive sourcing program and whether it is achieving the desired objectives and outcomes. On August 4, 2005, the Director, Housing and Competitive Sourcing, issued the “Baseline Costing for Public-Private Competitions,” policy. The policy establishes a standardized method to estimate baseline costs. Standardization of baseline costing is “critical” to determine estimated savings for the Department’s Competitive Sourcing Program. The Deputy Under Secretary of Defense (Installations and Environment) should also issue and clarify guidance on the proper use of DCAMIS relating to phase-in costs and competition costs. In addition, the Deputy Under Secretary of Defense (Installations and Environment) should clarify guidance requiring validation and review of DCAMIS records and establish controls in DCAMIS. (Finding A)

DoD had not implemented a comprehensive system to track and assess the quality of contractor and MEO performance under the competitive sourcing program. As a result, only 24 of 54 contracts reviewed (44 percent) that were awarded to the private sector under the competitive sourcing program were in PPIRS; no data were available on past performance for MEO service providers. Accordingly, Congress and Government officials do not have an effective management tool to assess the quality of either contractor or MEO performance under the competitive sourcing program. The Director, Defense Procurement and Acquisition Policy, in conjunction with the Deputy Under Secretary of Defense (Installations and Environment) for the competitive sourcing program, should require DoD Components and Military Departments to use PPIRS to track the quality of performance for contractor services, clarify guidance on the \$1 million threshold, and determine whether exempt contracts should be included in the system. The Director, Defense Procurement and Acquisition Policy, and the Deputy Under Secretary of Defense (Installations and Environment) for the competitive sourcing program should develop procedures and consistent data elements, similar to those for service contractors, to monitor the quality of MEO performance. Also, they should determine whether PPIRS or DCAMIS is the appropriate and most efficient system to maintain past performance information on MEO service providers and require that DoD Components and Military Departments use that system. (Finding B) See the Finding sections for the detailed recommendations.

Management Comments and Audit Response. The Director, Housing and Competitive Sourcing, fully supports the reports specific recommendations; however, he is concerned that some of the report’s statements about DCAMIS reliability are not consistent with the report’s findings. Specifically, the statement that DoD has not fully implemented a reliable system to track and assess the cost of performance of functions under the competitive sourcing program is premised on examples of data entry errors. The Director stated the fact that some entry errors remain does not lead to a conclusion that a reliable system has not been implemented. The inaccurate and unsupported data in DCAMIS were not data entry errors, but errors made because DCAMIS guidance and policy were unclear. Until DCAMIS guidance and policy are clarified, we do not believe that it can be concluded that DCAMIS is a reliable system. We consider the Director, Housing and Competitive Sourcing, comments to be partially responsive. We do not believe that DCAMIS guidance fully addresses including phase-in costs, because the definition refers to “each performance/annual period,” leading to an interpretation that a performance period must be 12 months to be reported in DCAMIS. In addition, the comments did not address the controls to be established in DCAMIS so that the same individual who validates the record cannot also review the same record. The Director, Defense Procurement and Acquisition Policy, and the Director, Housing and Competitive

Sourcing, generally concurred with the recommendations for the system to track and assess the quality of contractor and MEO performance of functions under the competitive sourcing program. We request the Deputy Under Secretary of Defense (Installations and Environment), provide comments on the final report by January 23, 2006. See the Finding sections of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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FY 2005 Defense Authorization Act

Section 328, “Competitive Sourcing Reporting Requirement,” of Public Law 108-375, “Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005,” October 28, 2004, requires that the Inspector General of the Department of Defense submit a report to Congress, no later than February 1, 2005, addressing whether the Department of Defense:

- (1) employs a sufficient number of adequately trained civilian employees—
 - (A) to conduct satisfactorily, taking into account equity, efficiency and expeditiousness, all of the public-private competitions that are scheduled to be undertaken by the Department of Defense during the next fiscal year (including a sufficient number of employees to formulate satisfactorily the performance work statements and most efficient organization plans for the purposes of such competitions); and
 - (B) to administer any resulting contracts; and
- (2) has implemented a comprehensive and reliable system to track and assess the cost and quality of the performance of functions of the Department of Defense by service contractors.

On January 31, 2005, the Inspector General reported the following to Congress in response to Public Law 108-375.

- DoD does not maintain a sufficient experienced civilian workforce needed to satisfactorily conduct all the scheduled public-private competitions and uses contractor support to augment its workforce.
- The Office of Inspector General was unable to verify the sufficiency of the DoD workforce employed to administer any resulting contracts because none of the DoD Components reviewed had reached a final performance decision that favored a private sector contractor.
- The Office of Inspector General preliminary conclusion, in regards to competitive sourcing service contractors, is that the DoD has not implemented a system that fully meets the requirements of Section 328 (2). We will address this issue in a separate audit report.

DoD Inspector General (IG) Report No. D-2005-028, “DoD Workforce Employed to Conduct Public-Private Competitions Under the DoD Competitive Sourcing Program,” February 1, 2005, provided details on the civilian workforce needed to conduct public-private competitions. This is the separate audit report providing additional information addressing the system used to track and assess the cost and quality of performance of functions under the competitive sourcing program.

Background

Competitive Sourcing Policy. The Office of Management and Budget (OMB) Circular No. A-76, “Performance of Commercial Activities,” August 4, 1983, (Revised) (OMB Circular A-76), and OMB Circular No. A-76 Revised Supplemental Handbook, March 1996 (Revised), establish Federal policy regarding the performance of recurring commercial activities. The guidance sets forth the principles and procedures for implementing OMB Circular A-76, including the instructions for calculating the financial advantage to the Government of acquiring a service through in-house, contract, or inter-service support agreement resources. This guidance was in effect for all the competitions conducted within the scope of this audit. On May 29, 2003, OMB issued a revision to OMB Circular A-76 that requires agencies to centralize oversight responsibility to facilitate fairness in competitions and promote trust in the process. All public-private competitions announced after May 29, 2003, are subject to the rules of the May 29, 2003, revision.

Requirement for Competitive Sourcing Tracking System. The “Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001,” Public Law No. 106-398, section 354, subsection 2461a, establishes the requirement for a system to monitor cost savings resulting from workforce reductions.

(b) SYSTEM FOR MONITORING PERFORMANCE.—(1) The Secretary of Defense shall establish a system for monitoring the performance, including the cost of performance, of each function of the Department of Defense that, after the date of the enactment of this section, is the subject of a workforce review. (2) The monitoring system shall be designed to compare the following: (A) The costs to perform a function before the workforce review to the costs actually incurred to perform the function after implementing the conversion, reorganization, or reengineering actions recommended by the workforce review. (B) The anticipated savings to the actual savings, if any, resulting from conversion, reorganization, or reengineering actions undertaken in response to the workforce review. (3) The monitoring of a function shall continue under this section for at least five years after the conversion, reorganization, or reengineering of the function.

The “Consolidated Appropriations Act, 2004,” Public Law 108-199, section 647(b), requires Executive agencies to annually report to Congress by December 31 on the competitive sourcing activities that were performed by the agency the previous fiscal year. For completed competitions the agency must report the total number of competitions, the number of full-time equivalent positions studied, the costs of the competitions, an estimate of anticipated savings, and actual savings achieved from competitions completed after May 29, 2003. The law also requires the agency to report the number of competitions announced, the number of full-time equivalent positions currently under study, and the number of full-time equivalent positions to be studied under competitions announced in the next reporting cycle.

DoD Commercial Activities Management Information System. Since 1979, the Commercial Activities Management Information System had served as the tracking system for the DoD competitive sourcing program. DoD Instruction 4100.33, “Commercial Activities Program Procedures,” September 9, 1985, requires DoD Components to create and maintain individual Commercial Activities Management Information Systems and provides guidance that was updated by a September 3, 1999, Deputy Under Secretary of Defense (Installations) memorandum. On November 15, 2002, DoD implemented a single Web-based DoD Commercial Activities Management Information System (DCAMIS) tracking system, to meet the requirements of Public Law No. 106-398. DCAMIS continues to provide competition-specific feedback to determine the status of the program and is the official source of DoD competitive sourcing data. There are 156 data elements that track the competitions from announcement of a public-private competition through the selection of the service provider and the end of the last performance period used in the competition. The DCAMIS elements include information such as the type of competition, status of a competition, the type of the 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.

Past Performance Information Retrieval System. DCAMIS was not set up to track the quality of contractor or most efficient organization (MEO) performance. However, there is a separate system to collect, report, and track the quality of performance for service provided by private sector contractors. The Past Performance Information Retrieval System (PPIRS) is a system that retains past performance reports on contractors for the entire Federal Government. The Federal acquisition community uses contractor past performance information from the system in making source selection decisions. PPIRS provides a query capability for authorized users to retrieve report card information detailing a contractor's past performance. PPIRS functions as the Federal Government’s central warehouse for performance assessment reports received from the performance information collection systems, such as the Contractor Performance Assessment Reporting System and Past Performance Information Management System, used by the Army, Navy, Air Force, Marine Corps, and some Defense agencies.

Objective

Our overall audit objective was to determine whether DoD has implemented a comprehensive and reliable system to track and assess the cost and quality of the performance of functions of the DoD for the competitive sourcing program. See Appendix A for a discussion of the scope and methodology.

A review of the managers’ internal control program was not an announced objective of the audit and we did not complete a review of the program.

A. DoD Competitive Sourcing System to Track and Assess Costs

DoD had not effectively implemented a system to track and assess the cost of performance of functions under the competitive sourcing program. Specifically, DCAMIS was not effectively implemented because:

- system users entered inaccurate and unsupported costs and did not always maintain supporting documentation for key data elements relating to baseline costs, MEO estimated costs, contractor estimated costs, and costs of conducting the competition; and
- the Army, Navy, and Air Force each used different methodologies to calculate baseline costs.

As a result, Congress and Government officials had not received reliable information reported out of DCAMIS to determine the costs and benefits of the competitive sourcing program, whether it is achieving the desired objectives and outcomes, and the overall costs and “estimated savings”¹ of the program may be either overstated or understated.

Fiscal Year 2003 Completed Competitions

As of June 22, 2004, DCAMIS showed that 135 competitions were completed (that is, reached tentative decision) during FY 2003. The 135 competitions covered more than 10,000 full-time equivalent positions and accounted for approximately \$900 million in estimated savings for all performance periods under competition. Sixteen of the 135 competitions (11.85 percent) showed a combined estimated savings of approximately \$500 million, or 56 percent of the \$900 million estimated savings reported.

We selected the competition within each Service that had the highest estimated savings, along with any other competitions completed at that location for review within FY 2003. Table 1 shows the six competitions at the four locations we reviewed. See Appendix B for a summary of the cost information reported in DCAMIS for each competition.

¹ “Estimated savings” is a DCAMIS term. DCAMIS defines estimated savings as the baseline cost minus the selected service provider’s cost. Estimated savings identified within this finding are those estimates reported within DCAMIS and are not values calculated by DoD IG auditors.

Table 1. Competitions Selected for Review			
<u>Competition Title</u>	<u>Location</u>	<u>Award</u>	<u>Estimated Savings (as of June 22, 2004)</u>
Army			
Whole Base	Fort Myer, Virginia	MEO	\$ 66,050,000
Small Business Set-Aside ¹	Fort Myer, Virginia	MEO	972,000 ²
Navy			
Public Works	Naval Academy, Maryland	Contract	32,019,000
Vessels Overhaul ¹	Naval Academy, Maryland	MEO	1,481,000
Air Force			
Base Operating Support	Beale Air Force Base, California	MEO	19,037,000
Marine Corps			
Facilities Maintenance	Twentynine Palms, California	MEO	<u>29,016,000</u>
Total			\$148,575,000
¹ Selected based on location.			
² As of September 30, 2004.			

System User Input and Documentation for Key Data Elements

DoD had not effectively implemented a system to track and assess the cost of performance of functions under the competitive sourcing program. System users entered inaccurate or unsupported costs for three of the four key cost elements we reviewed. The four cost elements were either related to the overall cost of the competitive sourcing program or used to determine estimated savings. While system users entered accurate and supportable estimated contractor costs, they entered inaccurate or unsupported costs for baseline costs, MEO estimated costs, and the costs of conducting the competition, hereafter referred to as competition costs. Table 2 shows the inaccurate and unsupported costs for each of the selected competitive sourcing competitions.

Table 2. Accuracy and Supportability of Cost Information			
<u>Competition Title</u>	<u>Baseline Cost</u>	<u>MEO Estimated Cost</u>	<u>Competition Cost</u>
Army			
Whole Base		I ¹	U ²
Small Business Set-Aside			U
Navy			
Public Works	U, I		U
Vessels Overhaul			U
Air Force			
Base Operating Support	U, I		I
Marine Corps			
Facilities Maintenance			I
¹ Inaccurate.			
² Unsupported.			

Baseline Cost. The “DCAMIS Interim Guidance with Updated A-76 Data Elements,” October 2002 (updated June 2004), states that baseline costs are “an estimate of what the total cost of the commercial activities being competed would have been over all performance/annual periods if the initiative had not been conducted.” The baseline cost is also an integral factor in the calculation of the estimated savings. Baseline costs reported in DCAMIS for two of the six competitions were inaccurate and unsupportable.

Navy. Documentation was not available to support the baseline cost reported in DCAMIS for the Navy Public Works competition; however, the consultant hired to assist the MEO for the competition was able to explain the calculation used. The verbal explanation was not in accordance with Office of the Chief of Naval Operations Instruction 4860.7c, “Navy Commercial Activities Program,” June 7, 1999. The consultant did not use the correct number of MEO and pre-MEO full-time equivalent positions, as required, when she calculated a baseline cost of \$89.9 million. Using the correct MEO and pre-MEO full-time equivalent positions, the corrected baseline cost was \$99.8 million, a difference of \$9.9 million, or 9.9 percent. The understatement of the baseline cost by \$9.9 million resulted in the reported estimated savings of \$32 million as also being understated by \$9.9 million.

Air Force. The Air Force system user entered \$94.1 million in DCAMIS as the baseline cost of the Base Operating Support competition. The Air Force could not provide a calculation to support the baseline cost, so we were unable to determine whether it was accurate. However, after reviewing the cost comparison form, it appeared that the system user made an error and entered the contractor cost in the baseline cost element in DCAMIS. Personnel from the Manpower and Organization office at Beale Air Force Base agreed and determined the correct baseline cost was \$145.2 million. The only documentation they were able to provide to support that cost was an e-mail, but the e-mail did not identify the cost methodology to calculate the \$145.2 million, so we were unable to determine its accuracy. In June 2004, the estimated savings of this competition were reported as \$19 million; however, when the Air Force changed the baseline cost to \$145.2 million in DCAMIS, the estimated savings increased by \$51.1 million to \$70.1 million.

MEO Estimated Cost. The DCAMIS Interim Guidance states that MEO estimated cost is the “in-house cost reported on the cost comparison form for each performance/annual period.” One of the six competitions reported inaccurate MEO estimated cost in DCAMIS. The Army system user entered the MEO estimated cost for the Army Whole Base competition as \$69.1 million, which differed from the total in-house cost reported on the cost comparison form of \$69.7 million. The amount reported in DCAMIS was \$0.6 million less than the amount reported on the cost comparison form because it did not include the costs of the transition phase. Personnel within the Competitive Sourcing Division, Assistant Chief of Staff for Installation Management, Department of the Army, explained that it is an unwritten Army policy to exclude the transition costs when reporting the total MEO cost in DCAMIS. Therefore, the total MEO estimated cost reported in DCAMIS was understated by \$0.6 million.

Of the other five competitions reviewed, the only other competition to have a separate transition phase was the Air Force Base Operating Support competition. The Air Force system user added the transition phase costs to the first performance period costs and entered the combined cost in DCAMIS as the first performance period costs. The Air Force system user also included a note in DCAMIS to explain how transition phase costs were accounted for in DCAMIS.

The DCAMIS Interim Guidance did not provide guidance on how transition phase costs should be included in the MEO estimated cost reported in DCAMIS. Thus, transition phase costs were not reported consistently, or at all, within DoD for its competitive sourcing initiatives. We believe the Deputy Under Secretary of Defense (Installations and Environment) should provide guidance on how to include the transition costs in the MEO estimated cost element in DCAMIS.

Competition Cost. The DCAMIS Interim Guidance defines competition costs as the estimated total cost of the in-house staff hours expended plus other costs associated with the cost comparison (for example, travel, reproduction costs, consultant support, etc.). Public Law 108-199 requires DoD to annually report the amount it spends on competition costs. All six of the competitions reported competition costs that were either inaccurate or unsupportable. Four reported unsupportable competition costs and two reported inaccurate competition costs.

Competition Cost Support. Documentation was not available to support the total competition costs reported for either of the two Army competitions. Although documentation was available to support the consultant costs on the Army competitions, documentation was not available to support the number of staff hours reported for the two competitions or other costs such as travel or reproduction costs. Without documentation, it is unknown whether all costs were included in the competition costs reported in DCAMIS.

Documentation also was not available to support the total competition costs reported in DCAMIS for either of the two Navy competitions. The Navy did not include all the hours spent on the competition for the two competitions. Only the hours spent on the performance work statement and MEO were included. The hours spent on contracting actions, personnel actions, the independent review, and the administrative appeal were not included, as required by the guidance. The consultant costs of \$400,000 reported for the Navy Vessels Overhaul competition was also not supported by documentation. Specifically, the contract award amount was \$384,771, but when we requested the actual amount spent, we were provided with a spreadsheet developed by the consultant that indicated only \$173,722 was invoiced. Moreover, copies of invoices paid by the Navy were unavailable; therefore, we do not know the actual amount spent on consultant support for the Vessels Overhaul competition.

Competition Cost Accuracy. The Air Force did track all the time spent from announcement to final decision, but they did not report the MEO hours within DCAMIS. However, the costs of the MEO hours were reported in the total cost of competition. The Air Force acknowledged this error and updated DCAMIS to include the MEO hours in the staff hours expended. Also, the

consultant costs and total competition costs that were tracked did not match the amount reported within DCAMIS, so the Air Force also updated the consultant costs and total competition costs to reflect costs that were tracked.

The amount reported in DCAMIS for the Marine Corps Facilities Maintenance competition included the time spent by Government personnel. Costs related to the performance work statement and MEO teams, the business management, contracting, human resources, and comptroller offices were included; however, independent review costs were not.

Competition Cost Guidance. The DCAMIS Interim Guidance provides a detailed definition as to what needs to be included in the total competition costs. DCAMIS breaks the competition costs into two elements, consultant costs and total staff hours.

- Consultant costs should include the total amount paid to consultants for support provided to the competition, including all modifications.
- Total staff hours should include the total estimated number of in-house staff hours expended in conducting the competition. This includes, for example, performance work statement development, MEO development, independent review,² contracting actions, and administrative appeals process, including indirect and direct time expended by staff from the time the competition is announced until the final decision.

Although the definition provided in the DCAMIS Interim Guidance is specific, only one of the six competitions included all costs from the announcement to final decision. To increase the accuracy and supportability of competition costs, we believe that the Deputy Under Secretary of Defense (Installations and Environment) should require the use of a form, similar to the one presented in Appendix C, to track the competition costs.

Supporting Documentation. As discussed, supporting documentation was not available to support the baseline costs of two competitions and the competition costs of four competitions. Although there is not a requirement for system users to maintain supporting documentation for the data entered into DCAMIS, it does have functions to assist in ensuring the accuracy of data. When these functions are properly used, supporting documentation is expected to be maintained. Validation and review functions were built into each of the 10 sections within DCAMIS. The 10 sections are administration, start-up, in-process, tentative decision, disputes, final decision, cost comparison details, transition actions, service provider execution, and milestones. Data can only be entered into one section at a time, and only after one section is closed can another be accessed. System users are assigned different roles, and only individuals with administrative privileges were allowed to make changes to sections that were closed. The validation and review functions were established to ensure written

² Independent reviews are not required for competitions conducted in accordance with the May 29, 2003, OMB Circular A-76.

documentation was available to support the data entered into DCAMIS and that the data were reviewed for compliance with DCAMIS policy. When the reviewer signs the DCAMIS record, the reviewer indicates that the information is accurate, complete, reasonable, and consistent.

DoD requires the validation of data entered into DCAMIS on an annual basis, but has not established policy requiring the review of the data. The Services did not use the validation and review functions for the selected six competitions as intended. Also, DoD has not implemented separation of duties between the functions. Currently, the same individual who validates a record can also review the record. For the selected competitions, the Army did not use the validation and review functions. The same individual updated, validated, and reviewed records for the Navy. Within the Marine Corps, the same individual who updated a record also validated the record, but a different individual reviewed the record. The Air Force did have three different individuals performing the update, validate, and review functions. However, because the Air Force could not provide documentation for the baseline cost, and the competition costs reported in DCAMIS were not supported by the documentation provided, the validate and review functions were not being used as intended. The Deputy Under Secretary of Defense (Installations and Environment) should clarify the DCAMIS guidance requiring the validation and review of DCAMIS records, and establish controls in DCAMIS so that the same individual who validates the record cannot also review the same record.

Different Methodologies to Calculate Baseline Costs

Baseline Cost Guidance. The DCAMIS Interim Guidance defines the baseline cost as “an estimate of what the total cost of the commercial activities being competed would have been over all performance/annual periods if the initiative had not been conducted.” The Army, Navy, and Air Force used different methodologies to calculate baseline cost. Because the actual cost of the functions competed were generally not available, the Army, Navy, and Air Force developed their own guidance for determining baseline cost. The Army and Navy guidance each recommended a specific calculation to use to estimate the baseline cost; the Air Force guidance did not.³

We calculated baseline costs using both the Army and Navy methodologies and compared them with the baseline costs reported in DCAMIS for each of the six competitions. The primary difference between the Army and Navy methodologies was how non-personnel costs, such as materials and supplies, were taken into account. Although each calculation used a cost per full-time equivalent position to determine the baseline cost, the way the cost per full-time equivalent was calculated differed. The Army calculation treated the non-personnel costs proportional to the full-time equivalent positions proposed in MEO, while the Navy calculation treated non-personnel costs as constant. Table 3 illustrates the

³ Because the Army and Navy provided specific calculations, we could calculate “Army” and “Navy” values. The Air Force did not have a specific calculation, so we could not calculate an “Air Force” value.

differences between the baseline costs reported in DCAMIS and the baseline costs calculated using both the Army and Navy methodologies.

Table 3. Baseline Cost Methodologies Compared with Baseline Costs Reported
(in millions)

<u>Competition Title</u>	<u>DCAMIS Reported</u>	<u>Army Calculation</u>	<u>Navy Calculation</u>	<u>Differences</u>	
				<u>Dollars</u>	<u>Percent</u>
Army					
Whole Base	\$131.430	\$131.430	\$128.609	\$ 2.821	2.2
Small Business Set-Aside	4.373	4.373	4.255	0.118	2.7
Navy					
Public Works	89.879*	\$110.290	99.755	(20.411)	22.7
Vessels Overhaul	10.769	11.199	10.769	(0.430)	4.0
Air Force					
Base Operating Support	145.242	192.107		(46.865)	32.3
	145.242		174.095	(28.853)	19.9
Marine Corps					
Facilities Maintenance	72.749	91.647	72.749	(18.898)	26.0

*Calculation was not in accordance with Navy guidance, as previously discussed in the report.

Baseline costs served as the basis for determining the estimated savings achieved through competitive sourcing. However, the use of different methodologies for determining baseline costs can produce significant differences, varying from 2.2 percent through 32.3 percent. As a result, the overall costs and the estimated savings of the competitive sourcing program may be either overstated or understated.

Management Action. In October 2004, the audit team discussed the baseline cost methodology issue with the Assistant Director, Housing and Competitive Sourcing. The Assistant Director acknowledged the issue and explained that actions were being taken to address the issue. On August 4, 2005, the Director, Housing and Competitive Sourcing, issued the “Baseline Costing for Public-Private Competitions,” policy. The policy establishes a standardized method to estimate baseline costs for public-private competitions performed in accordance with OMB Circular A-76, May 29, 2003. The policy states “standardization of baseline costing is critical to the Department’s Competitive Sourcing Program . . . to determine estimated savings with consistency across the Department.” The standardized method requires the use of COMPARE, which is the same costing software used to estimate the cost of the MEO. DoD Components are required to develop a Preliminary Planning Baseline Cost and an Adjusted Baseline Cost for each public-private competition. The two baseline costs are to be documented and certified and then reported in DCAMIS within 1 week of public announcement and performance decision. We believe that the policy will correct the inconsistencies identified in the report.

Conclusion

Competitive sourcing is one of the five initiatives identified in the President's Management Agenda and is expected to generate significant savings. DCAMIS is the official source of DoD competitive sourcing information and cost information from this system is regularly reported to legislators and Government officials, as required by Public Law 108-199. Cost information contained in DCAMIS, including baseline costs, MEO estimated costs, and contractor estimated costs, which are used to calculate the estimated savings, should be as accurate as possible to report reliable information about the overall competitive sourcing program to Congress. However, because system users entered inaccurate or unsupported costs and did not always maintain supporting documentation for key cost elements, and the Army, Navy, and Air Force used different methodologies to calculate baseline costs, the overall costs of and estimated savings resulting from the DoD competitive sourcing program may be unreliable.

Management Comments on the Finding and Audit Response

Management Comments. The Director, Housing and Competitive Sourcing, stated he fully supports the report's recommendations; however, he was concerned that some of the report's statements about the reliability of DCAMIS were not consistent with the report's findings. Specifically, that the statement that DoD has not fully implemented a reliable system to track and assess the cost of performance of functions under the competitive sourcing program was premised on data entry errors for 5 of 18 inaccurate data elements. He further stated that two of those were in baseline costing, an area which has been their primary focus and on which updated guidance was recently issued. Additionally he stated the MEO cost estimating error amounted to less than one percent difference, well within acceptable tolerance for programmatic oversight. Finally, the Director, Housing and Competitive Sourcing, stated he believed the report supports their contention that DCAMIS is a reliable system to track and assess the cost of performance of functions under the competitive sourcing program.

Audit Response. We concluded that DoD had not effectively implemented a system to track and assess the cost of performance of functions under the competitive sourcing program based on the inaccurate and unsupported costs for three of the four key cost elements we reviewed. The four cost elements were either related to the overall cost of the competitive sourcing program or used to determine estimated savings. While we did identify that 5 of the 18 data elements were inaccurate, we also identified 4 additional elements that were unsupported. We considered the unsupported data to be unreliable because we were unable to verify its accuracy. The inaccurate and unsupported data in DCAMIS were not data entry errors, but errors made because DCAMIS guidance and policy were unclear. We agree with the Director, Housing and Competitive Sourcing, that the recently issued baseline costing guidance will correct the baseline cost issue; however, it will not correct the information already in DCAMIS. Until DCAMIS guidance and policy on phase-in costs, competition costs, and validation and

review functions are clarified, and until time has passed to allow the updated guidance and policy to take effect, information from DCAMIS may not be reliable.

Recommendations, Management Comments, and Audit Response

A. We recommend that the Deputy Under Secretary of Defense (Installations and Environment):

1. Clarify DoD Commercial Activities Management Information System guidance to include guidance on how to include the phase-in costs within the DoD Commercial Activities Management Information System.

Management Comments. The Director, Housing and Competitive Sourcing, stated that the revised Circular (Attachments B and C) requires that the first performance period be the phase-in period and that DCAMIS policy requires that the actual costs for each performance period be reported.

Audit Response. We consider the Director, Housing and Competitive Sourcing, comments to be partially responsive. While the revised Circular does address phase-in costs by requiring the first performance period to be a phase-in period, we do not believe that DCAMIS guidance is clear on including phase-in costs. Phase-in periods are generally less than 12 months, but the DCAMIS refers to each “performance/annual period,” implying that a performance period must be 12 months to be reported in DCAMIS. Therefore, we ask that he provide additional comments on this recommendation in response to the final report.

2. Require the use of a form similar to the one in Appendix C to track competition costs to report accurate and supportable competition costs.

Management Comments. The Director, Housing and Competitive Sourcing, concurred that requiring the use of a form similar to that provided in the audit would improve the competition costs and stated that the use of a form would be required when the DCAMIS guidance is updated.

3. Clarify DoD Commercial Activities Management Information System guidance requiring validation and review of DoD Commercial Activities Management Information System records, and establish controls in the DoD Commercial Activities Management Information System so that the same individual who validates a record cannot also review the same record.

Management Comments. The Director, Housing and Competitive Sourcing, partially concurred, stating that the review and validate functions should be performed by different individuals for large competitive sourcing programs and staffs, such as the Services, the Defense Finance and Accounting Service, and the Defense Commissary Agency. He does not agree that small competitive sourcing programs, such as Defense Contract Management Agency and Department and

Defense Education Activity, should have separate individuals perform the review and validate functions as long as a separate individual is responsible for maintaining the record.

Audit Response. We consider the Director, Housing and Competitive Sourcing, comments to be partially responsive. We agree that for small competitive sourcing programs, the same individual could perform the review and validate functions as long as a different individual is responsible for maintaining the record. However, the comments did not address the controls to be established in DCAMIS so that the same individual who validates a record cannot also review the same record. Therefore, we ask that he provide additional comments in response to the final report.

B. DoD Competitive Sourcing System to Track and Assess the Quality of Performance of Functions

DoD had not implemented a comprehensive system to track and assess the quality of contractor and MEO performance of functions under the competitive sourcing program. The system was not comprehensive because DoD:

- did not require organizations to enter past performance information for contractor services into an automated system;
- was not required to collect past performance information for service contracts below a \$1 million threshold requirement as interpreted by the organizations or exempt contracts; and
- had not established procedures, standard data elements, or a system to track and assess the quality of performance of MEO service providers.

As a result, only 24 of 54 contracts reviewed (44 percent) that were awarded to the private sector under the competitive sourcing program were in the Past Performance Information Retrieval System and no data were available on past performance for the 122 MEO service providers identified. (See Appendix A for detail on the 54 contracts reviewed and 122 MEO service providers identified.) Accordingly, Congress and Government officials do not have an effective management tool to assess the quality of either contractor or MEO performance under the competitive sourcing program.

Requirement to Collect Past Performance Information

Federal Acquisition Regulation. Federal Acquisition Regulation (FAR) Subpart 42.15, “Contractor Performance Information,” provides policies and establishes responsibilities for recording and maintaining contractor performance information. It defines past performance information about a contractor’s actions under previously awarded contracts as relevant information for future source selection purposes. Past performance information can include the contractor’s:

- record of conforming to contract requirements and to standards of good workmanship;
- record of forecasting and controlling costs;
- adherence to contract schedules; and
- history of reasonable and cooperative behavior and commitment to customer satisfaction.

FAR Subpart 42.1502, “Policy,” requires agencies to prepare evaluations of contractor performance for each service contract valued at over \$1 million, except for those awarded under FAR Subparts 8.6, “Acquisition from Federal Prison Industries, Inc.,” and 8.7, “Acquisition from Nonprofit Agencies Employing People Who Are Blind or Severely Disabled.”

DoD Policy Memorandum. A November 20, 1997, Under Secretary of Defense (Acquisition and Technology) policy memorandum, “Collection of Past Performance Information in the Department of Defense,” states that the automation of collection and retrieval of past performance information is critical to obtaining best value services. The policy also states that DoD should use a consistent management approach to collect past performance information and use consistent elements to assess contractors and apply consistent ratings to those elements. The five consistent elements to assess contractors are quality of the service, schedule timeliness, cost control, business relations, and management of key personnel.

Automated System to Track Past Performance Information for Contractor Services

The DoD system to track and assess the quality of contractor performance was not comprehensive because DoD did not require organizations to enter past performance information into the system. In addition, past performance information was not collected for service contracts below the \$1 million threshold requirement as interpreted by the organizations, for exempt contracts, and for other unknown reasons.

Past Performance Information Retrieval System. PPIRS is a collection of past performance reports on service contractors for the entire Federal Government that provides contractor past performance information to the Federal acquisition community for use in making source selection decisions. PPIRS provides a query capability for authorized users to retrieve report card information detailing a contractor’s past performance. PPIRS functions as the Federal Government’s central warehouse for performance assessment reports received from automated collection or feeder systems. For service contracts, the Military Departments and some Defense agencies used one of two automated systems to collect past performance information. The Army used the Past Performance Information Management System to collect past performance information. The Navy, Air Force, Marine Corps, and some Defense agencies used the Contractor Performance Assessment Reporting System to collect past performance information.

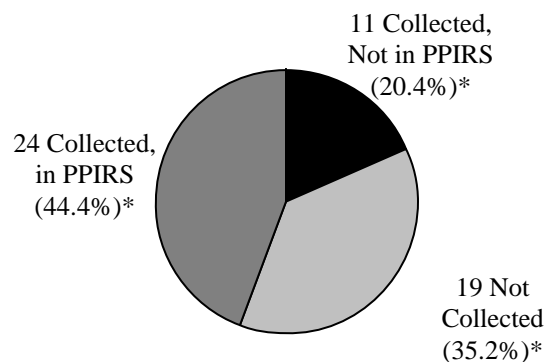
Contractor Past Performance Information in PPIRS. We reviewed 54 contracts valued at over \$1 million each that were awarded under the competitive sourcing program to determine if past performance information was collected and reported in PPIRS. As shown in Table 4, PPIRS contained past performance information on 24 of the 54 contracts, or 44 percent.

Table 4. Contractor Past Performance Information in PPIRS

<u>DoD Component</u>	<u>Number of Contracts</u>	<u>Reported in PPIRS</u>	<u>Percent*</u>
Army	13	8	62
Navy	17	4	24
Air Force	15	12	80
Marine Corps	1	0	0
DeCA, DFAS	8	0	0
Total	54	24	44

*The percentages apply only to the 54 contracts reviewed and do not generalize to any wider population of contracts.

Contractor Past Performance Information Collected but Not in PPIRS. In addition to the 24 contracts that were in PPIRS, past performance information was collected on an additional 11 contracts, or 20 percent (see Figure below), but it was not entered into PPIRS. The Air Force and Navy personnel each had collected past performance information on one contract, but the information was not yet finalized with a contractor response; therefore, it was not entered into PPIRS. Personnel at two Defense agencies did collect past performance information on five contracts, but they were not required to use an automated past performance information system. The Army had collected past performance information on one contract, but delayed finalizing the assessment in hopes of motivating the contractor to improve performance, and it was not entered into PPIRS. The Navy had two contracts where past performance information was collected but resided in the contract files only. The Marine Corps collected past performance information on one contract, but due to litigation involving the contractor, and because the Government did not exercise its option to extend the term of the contract, past performance information was collected only on the initial base year. It was most likely not entered into PPIRS because it was not finalized with the contractor's response due to the litigation.



*The percentages apply only to the 54 contracts reviewed and do not generalize to any wider population of contracts.

Percentage of Past Performance Information Collected on 54 Contracts

Reasons that Contractor Past Performance Information was not Collected. For the 19 contracts where past performance information was not collected, 7 were considered exempt, 6 were considered by the organizations to be below the \$1 million threshold, and 6 had unknown reasons.

Contracts Considered Exempt (7). Three of the contracts were awarded under FAR Subpart 8.7, which exempts agencies from collecting past performance information on contracts awarded to nonprofit agencies employing people who are blind or severely disabled. Four of the contracts were awarded by the Navy Fleet Industrial Supply Center-Philadelphia, which stated that simplified acquisition procedures were followed for the awards as allowed by FAR Subpart 13.5, "Test Program for Certain Commercial Items." This FAR subpart permits the use of simplified acquisition procedures for awards up to \$5 million. A Navy policy letter issued by the Commander, Naval Supply Systems Command, removed the requirement for using the Contractor Performance Assessment Reporting System, notwithstanding the dollar threshold.

Minimum Threshold (6). Personnel at two Air Force organizations did not collect past performance information for two contracts because the contracts had not reached the \$1 million threshold in any given year. Personnel at four Navy organizations did not collect past performance information because the four contracts had not yet reached the \$1 million threshold, but past performance information was expected to be entered into the system for the contracts once the threshold was met.

The November 20, 1997, DoD policy memorandum, "Collection of Past Performance Information in the Department of Defense," issued by the Under Secretary of Defense (Acquisition and Technology) states:

The contract thresholds for PPI [past performance information] collection apply to the "as modified" face value of contracts; that is, if a contract's original face value was less than the applicable threshold, but subsequently the contract was modified and the "new" face value is greater than the threshold, then a performance assessment (or assessments) should be made, starting with the first anniversary that the contract's face value exceeded the threshold. If the contract threshold is expected to exceed the collection threshold by exercise of option, modification or order it may be advisable to initiate the PPI collection process prior to the value of the contract exceeding the threshold.

However "face value" is not defined in the policy memorandum. We used the total contract price listed in DCAMIS to determine the applicability of the threshold. We believe the \$1 million threshold is applicable to all contracts where the contract is valued at or over \$1 million, including all option years, and that past performance information should be collected. We believe past performance information should be collected for all performance periods of those contracts, not just the performance periods where the \$1 million threshold was reached or exceeded.

Unknown or Other Reasons (6). Personnel at one Navy organization did not collect past performance information for two contracts for unknown reasons. Personnel at four Army organizations did not collect past performance

information on four contracts for various reasons such as oversight, cutbacks in manpower, and for other unknown reasons.

The absence of a firm DoD-wide requirement for the collection, reporting, and tracking of contractor performance information and consistent guidance allows for different interpretations of past performance data collection requirements. We believe DoD Components and Military Departments should be required to use PPIRS to track the quality of performance executed by service contractors under the competitive sourcing program, clarify guidance on the \$1 million threshold, and determine whether exempt contracts should be included in the system.

System to Track and Assess the Quality of MEO Performance

DoD had not established procedures, data elements, or a system to track the quality of MEO performance. No information was available in PPIRS on past performance for the 122 MEO service providers identified in DCAMIS. Processes were either in place or adaptable to assess the performance of the MEO service providers for three of the five MEO service providers we reviewed but not for the other two.

Procedures to Assess MEO Performance. DoD had not established procedures to assess the performance of MEO service providers. OMB Circular A-76 does require a quality assurance program to monitor MEO performance in accordance with the quality assurance surveillance plan and the performance requirements identified in the solicitation. Specifically, it states that “Regardless of the selected service provider, after implementing a performance decision, an agency shall:

- (1) monitor performance for all performance periods stated in the solicitation;
- (2) implement the quality assurance surveillance plan;
- (3) retain the solicitation and any other documentation from the streamlined or standard competition as part of the competition file;
- (4) maintain the currency of the contract file, consistent with FAR Subpart 4.8, “Government Contract Files,” for contracts, MEO letters of obligation, and fee-for-service agreements;
- (5) record the actual cost of performance by performance period; and
- (6) monitor, collect, and report performance information, consistent with FAR Subpart 42.15, for purposes of past performance evaluation in a follow-on streamlined or standard competition.”

Data Elements to Assess MEO Performance. DoD had not established data elements to assess the quality of MEO performance similar to those used to assess contract performance. We reviewed the quality assurance process used to track and assess the performance of the five MEO service providers that were selected

for review of the reliability of cost information reported within DCAMIS (see finding A). Of those, three had either a process to assess performance or could adapt their process to assess performance in an automated system. Two did not have a process to assess the performance of the MEO service providers.

Processes were either in place or adaptable to assess the performance of the MEO service providers for Vessels Overhaul at the Naval Academy; Base Operating Support at Beale Air Force Base; and Facilities Maintenance at Twentynine Palms, a Marine Corps organization. The Marine Corps organization at Twentynine Palms had the most comprehensive system in place to assess and track the performance of the MEO. Quality assurance evaluators monitored performance on a monthly basis and developed a monthly surveillance schedule using statistical random sampling techniques. The quality assurance evaluators prepared monthly reports and required the MEO to address any errors or deficiencies. The information contained in the monthly reports could be used in an automated system with standard data elements. The processes in place to assess the performance of the MEO service providers for Vessels Overhaul at the Naval Academy and Base Operating Support at Beale Air Force Base were adaptable and could be used in an automated system with standard data elements.

Processes were not in place to assess the performance of the MEO service providers for the Whole Base and Small Business Set-Aside at Fort Myer, an Army organization. Fort Myer was in the process of trying to align the Standard Garrison Organization mandated by the Installation Management Agency with the MEO and was establishing a new Plans, Analysis, and Integration Office, which would assume the responsibility of performing quality assurance on the MEO. However, as of May 26, 2005, the Plans, Analysis, and Integration Office was not fully staffed to perform the quality assurance functions.

We believe DoD should develop procedures and consistent data elements similar to those for service contractors to monitor the quality of MEO performance.

System to Track MEO Past Performance Information. DoD had not established an automated system for collecting and reporting MEO past performance information. Both PPIRS and DCAMIS could be used to collect and report past performance information on the MEO. PPIRS is suitable as designed to collect MEO past performance information in addition to collecting contractor past performance information, although a couple of procedural changes may need to be made to the system. DCAMIS could be used to collect MEO past performance information even though it was not set up to collect and report past performance information. DCAMIS would also require some changes to accomplish this. It appears using PPIRS would be quicker and less expensive than using DCAMIS for this purpose. In addition, there is a greater likelihood consistent information would be more readily accessible if MEO past performance information were maintained in PPIRS. We believe DoD should weigh the alternatives of DCAMIS and PPIRS as the DoD official comprehensive system for competitive sourcing past performance information. DoD should consider the systems, inclusive of past performance information of the MEO, and determine which is the most appropriate and efficient system and require that DoD Components and Military Departments use that system.

Interagency Working Group Established. The Acquisition Center of Excellence for Services, established by the Office of Federal Procurement Policy, set up an interagency working group in March 2005 to revisit the purpose, collection, and use of contract performance information in the procurement process. Representatives from the Office of the Secretary of Defense, Defense Information Systems Agency, and the Navy are participating in the working group. The working group is also considering the collection and use of MEO performance information in the procurement process. The working group is developing a Government-wide Past Performance Information Guide. The working group is using the current DoD Past Performance Information Guide as a model for development of the new Government-wide guide.

Conclusion

Competitive sourcing is one of the five initiatives identified in the President's Management Agenda and along with the expectation of generating significant savings; there is also an expectation of noticeable performance improvements and greater efficiency and effectiveness of operations. DoD does not have a comprehensive database that tracks the quality of contractor and MEO performance. However, such a database would enable both Congress and Government officials to evaluate the effect of competitive sourcing as a management tool, using hard data and trend analysis to demonstrate the value of competition and to prompt corrective action when weaknesses are identified.

Recommendations, Management Comments, and Audit Response

B. We recommend that the Director, Defense Procurement and Acquisition Policy, in conjunction with the Deputy Under Secretary of Defense (Installations and Environment):

1. Require that DoD Components and Military Departments use the Past Performance Information Retrieval System to track the quality of performance for contractor services, clarify guidance on the \$1 million threshold, and determine whether exempt contracts should be included in the system.

Management Comments. The Director, Defense Procurement and Acquisition Policy, and the Director, Housing and Competitive Sourcing, concurred, stating that the Director, Defense Procurement and Acquisition Policy, will issue a policy memorandum reminding the acquisition workforce that the capture of past performance information must be done in an existing automated data capture system, such as the Contractor Performance Assessment Reporting System, whenever a procurement action meets the DoD threshold. This information is then loaded from the existing automated data capture system into PPIRS which is the single DoD automated system to retrieve that information. Additionally, the policy memo will clarify that past performance information should be captured

for contracts as soon as contracts are estimated to reach the reporting thresholds (\$ value) and that if past performance information is not captured before a contract reaches the reporting threshold, then the information must be captured when it does. Further, the policy memo will direct the DoD Components to collect past performance information on previously exempt contracts. The response further stated DoD will issue a FAR deviation similar to deviation 99-000002, updated for expected changes to FAR 42.1502, as a result of FAR Case 2004-012, to clarify thresholds for DoD data capture on past performance by the end of the calendar year.

2. Develop procedures and consistent data elements similar to those for service contractors to monitor the quality of MEO performance.

Management Comments. The Director, Defense Procurement and Acquisition Policy, and the Director, Housing and Competitive Sourcing, concurred that tracking the performance of MEOs is an important management tool for evaluating agency tenders. However, the response further stated that the type of data elements used to track performance may differ for a private service provider and an MEO. The Office of Defense Procurement and Acquisition Policy will work with the Deputy Under Secretary of Defense (Installations and Environment) to review possible data elements and select those data elements that can best be utilized to monitor and evaluate performance of MEOs.

3. Determine whether the Past Performance Information Retrieval System or the DoD Commercial Activities Management Information System is the appropriate and most efficient system to maintain MEO past performance information.

Management Comments. The Director, Defense Procurement and Acquisition Policy, and the Director, Housing and Competitive Sourcing, partially concurred, stating the Department agrees that an automated tracking and monitoring system is important and the Contractor Performance Assessment Reporting System is considered one option that will be evaluated for that effort. The Office of Defense Procurement and Acquisition Policy will work with the Deputy Under Secretary of Defense (Installation and Environment) to review available systems such as PPIRS, the Contractor Performance Assessment Retrieval System, DCAMIS, as well as systems that are under development by DoD Components to determine a single system for tracking and monitoring the performance of MEOs.

4. Require that DoD Components and Military Departments use the appropriate and most efficient system to maintain MEO past performance information.

Management Comments. The Director, Defense Procurement and Acquisition Policy, and the Director, Housing and Competitive Sourcing, concurred, stating that once all the available tracking systems have been identified and evaluated, the Deputy Under Secretary of Defense (Installations and Environment) will issue guidance directing that DoD Components transition collection of past performance data to the system determined most appropriate for maintaining MEO past performance information.

Appendix A. Scope and Methodology

We reviewed written documentation to determine the supportability and accuracy of the amounts reported in the DCAMIS database. The specific data elements reviewed were the estimated contractor costs, baseline cost, MEO estimated costs, and competition costs. We interviewed personnel responsible for developing the amounts reported in DCAMIS. We discussed DCAMIS policy and reporting inconsistencies identified across DoD with Office of the Deputy Under Secretary of Defense (Installations and Environment) officials and the Service officials responsible for competitive sourcing. We reviewed the performance work statement and quality assurance surveillance plan for each of the competitions reviewed. We reviewed the quality control plan to determine the quality control and quality assessment processes in place to review the performance of the selected provider. We interviewed officials responsible for the performance assessments.

We reviewed the FAR and Defense Federal Acquisition Regulation Supplement for guidance on past performance information collection and reporting. We accessed PPIRS to perform queries to determine if contract performance assessment reports were available for selected contracts awarded under competitive sourcing. We contacted contracting officers to determine reasons why contract performance assessment reports were not available in PPIRS and whether or not evaluations were completed for the selected contracts. We reviewed contractor performance assessment reports to determine ability to report on contract performance in terms of the reports' comprehensiveness and reliability.

We performed this audit from June 2004 through August 2005 in accordance with generally accepted government auditing standards.

With respect to finding A of the report, the universe of FY 2003 completed competitions reported in DCAMIS on June 22, 2004, consisted of 135 competitions. Quantitative Methods staff concluded that a statistical sample of 36 competitions would need to be reviewed to be able to provide projections of the data in DCAMIS. We determined that the timeframe established for the audit would not allow us to review 36 competitions. Therefore we selected the competition with the highest estimated savings for each Service to review, along with any other FY 2003 competitions at those locations. The results for the competitions selected represent themselves, and they do not generalize to the 135 competitions from which they were drawn.

With respect to finding B of the report, the universe of FY 2001 and FY 2002 competitions awarded to the private contractor reported in DCAMIS consisted of 155 competitions. We attempted to review 10 contracts for each of the Services and the three Defense agencies in the universe for each fiscal year, which would have resulted in a review of 120 contracts. Not all of the Services or Defense agencies in the universe had awarded 10 contracts each. As a result, we identified 90 competitions that were awarded to a private contractor. Of the 90 competitions, 67 competitions resulted in a contract award of over \$1 million. Of the 67 competitions, 54 competitions had a contract number reported in

DCAMIS. The 54 competitions examined represent roughly one-third of the 155 competitions identified for this time period. Their results apply to the 54 competitions and do not generalize to the 155 competitions.

Also, with respect to finding B of the report, the universe of FY 2001 and FY 2002 competitions awarded to the MEO reported in DCAMIS consisted of 204 competitions. Of the 204 competitions, 122 competitions were valued at over \$1 million. None of the 122 competition records in DCAMIS had an identifying contract number, which is required to be included in PPIRS.

Use of Computer-Processed Data. Computer-processed data includes data entered into a computer system and data resulting from computer processing. We extracted computer-processed data from the DCAMIS and PPIRS automated systems. The objective of the audit was to determine whether DoD implemented a comprehensive and reliable system to track and assess data for the competitive sourcing program. We queried the DCAMIS and PPIRS systems for the inclusion of data in those systems. We traced the DCAMIS data to the supporting documentation to determine the reliability of that data. We did not attempt to assess the accuracy of the processed data in PPIRS. In cases where data were not included in PPIRS, we contacted the owners of the data to verify the reasons for the absence of the data in the system. We did not find any errors in the data that would preclude the use of the data to meet the audit objective or that would change the conclusion in this report.

Government Accountability Office High-Risk Areas. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Support Infrastructure Management and DoD Contract Management high-risk areas.

Prior Coverage

No prior coverage has been conducted on the subject during the last 5 years.

Appendix B. Selected Cost Information For Competitions Reviewed

<u>Competition Title and Number</u>	<u>Baseline Cost</u>	<u>Competition Cost</u>	<u>MEO Estimated Cost</u>	<u>Contractor Estimated Cost</u>	<u>Estimated Savings</u>
Army					
Whole Base, A8792A	\$131,430,000	\$3,825,000	\$69,047,000	0	\$66,050,000
Small Business Set-Aside, A8792B	4,373,000 ¹	176,000	3,401,000 ¹	\$ 3,206,000 ¹	972,000 ¹
Navy					
Public Works, NC19990428	89,879,000	1,800,000	68,774,000	57,861,000	32,019,000
Vessels Overhaul, NC20010750	10,769,000	270,000 ²	9,288,000	0	1,481,000
Air Force					
Base Operating Support, F1BAEY004S	145,242,000 ²	3,117,000 ²	75,652,000	88,636,000	70,091,000 ³
Marine Corps					
Facilities Maintenance, MC20000735	72,749,000 ⁴	2,832,000	43,831,000	47,736,000	28,918,000 ⁴

¹ Amounts reported in DCAMIS as of June 22, 2004, were zero. DCAMIS data was updated to reflect actual amounts as of September 30, 2004.

² Amounts reported in DCAMIS as of June 22, 2004, were inaccurate. Amounts were updated based on errors identified during our site visit.

³ Estimated savings amount was adjusted after the Baseline Cost was changed.

⁴ We identified an insignificant error of \$98,000, or 0.1 percent, on the reported Baseline Cost. Baseline Cost was correctly adjusted and Estimated Savings were adjusted accordingly.

Appendix C. Competition Costs Form

Costs of Conducting Guide			
	Number of Staff Hours	Cost per Staff Hour	Total Cost
Staff Hours			
a. PWS Staff Hours			
Officer	_____	_____	_____
Enlisted	_____	_____	_____
Civilian	_____	_____	_____
Subtotal	_____		_____
b. MEO Staff Hours			
Officer	_____	_____	_____
Enlisted	_____	_____	_____
Civilian	_____	_____	_____
Subtotal	_____		_____
c. Contracting Office Staff Hours			
Officer	_____	_____	_____
Enlisted	_____	_____	_____
Civilian	_____	_____	_____
Subtotal	_____		_____
d. Human Resource Staff Hours			
Officer	_____	_____	_____
Enlisted	_____	_____	_____
Civilian	_____	_____	_____
Subtotal	_____		_____
e. Legal Staff Hours			
Officer	_____	_____	_____
Enlisted	_____	_____	_____
Civilian	_____	_____	_____
Subtotal	_____		_____
f. Competitive Sourcing Oversight Staff Hours			
Officer	_____	_____	_____
Enlisted	_____	_____	_____
Civilian	_____	_____	_____
Subtotal	_____		_____
Total Staff Hours and Cost of Staff Hours	_____		_____
ADDITIONAL COSTS			
Training Costs			_____
Travel Costs			_____
Reproduction Costs			_____
Materials/Supplies			_____
		Subtotal	_____
CONSULTANT COSTS			
Contract Award Amount		_____	
Contract Modifications		_____	
Actual Cost Paid Out to Consultant			_____
		Total Cost	_____
*This is not an all inclusive list; adjustments should be made as necessary.			

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Deputy Under Secretary of Defense (Installation and Environment)
Director, Acquisition Resources and Analysis
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Program Analysis and Evaluation
Director, Defense Procurement and Acquisition Policy

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Combatant Command

Inspector General, U.S. Joint Forces Command

Other Defense Organizations

Director, Defense Commissary Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Deputy Under Secretary of Defense (Installations and Environment) Comments



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

September 29, 2005

MEMORANDUM FOR PROGRAM DIRECTOR, CONTRACT MANAGEMENT ODOD(IG)

THROUGH: DIRECTOR, AR&A *cur 10/17/05*

SUBJECT: Audit Report, "DOD Reporting System for the Competitive Sourcing Program"
(Project No. D2004-D000CH-0187)

This memorandum responds to your request for comments on the subject report. The DoD Commercial Activities Management Information System (DCAMIS) is our primary database for monitoring our Competitive sourcing program and since 1979, we have worked to continuously to improve it. We fully support the report's specific recommendations and believe they will increase the accuracy of DCAMIS. We are concerned, however, that some of the report's statements about DCAMIS reliability are not consistent with the report's findings.

Specifically, the statement that DoD has not fully implemented a reliable system to track and assess the cost of performance functions under the competitive sourcing program is premised on examples of data entry errors. While we strive to eliminate all errors in the system, the fact that some entry errors remain does not lead to a conclusion that a reliable system has not been implemented. Out of 18 data points reviewed, only 5 were found to be inaccurate. Two of those were in baseline costing, an area which has been our primary focus and on which updated guidance has been recently issued. Additionally the MEO cost estimating error amounted to less than one percent difference, well within acceptable tolerance for programmatic oversight. We believe the report supports our contention that DCAMIS is a reliable system to track and assess the cost of performance of functions under the competitive sourcing program.

Our responses to the recommendations in Sections A and B are attached. The comments addressing Section B of the report regarding a reliable system to track and assess the quality of performance of functions under the competitive sourcing program, were provided by the Director, Defense Procurement and Acquisition Policy.

My action officer for the subject report is Mrs. Annie L. Andrews, Assistant Director for Housing and Competitive Sourcing, (703) 602-2608.

Joseph K. Sikes
Director, Housing and Competitive Sourcing

cc:
Director, Defense Procurement and Acquisition Policy



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1. The following responses to Section A of the subject audit report are provided by the Director, Housing and Competitive Sourcing, Office of the Deputy Under Secretary of Defense (Installations and Environment) [ODUSD(I&E)].

- **Section A.** DoD Competitive Sourcing System to Track and Assess Costs --
Recommendations: We recommend that the Deputy Under Secretary of Defense (Installations and Environment):
 - **Recommendation A.1.** Clarify DoD Commercial Activities Management Information System guidance to include guidance on how to capture transition costs within the DoD Commercial Activities Management Information System.
 - **Completed.** The revised Circular (Attachments B and C) requires that the first performance period be the phase-in period, which includes all phase-in costs. Under the previous Circular, the guidance was unclear and subject to misinterpretation. The current DCAMIS policy requires that the actual costs for each performance period be reported.
 - **Recommendation A.2.** Require the use of a form similar to the one in Appendix C to track competition costs to report accurate and supportable competition costs.
 - **Concur.** As your report states, the Department's 1999 policy for capturing competition costs is clear. Competition costs are estimates and increases of these estimates will have a negligible impact on the savings estimates generated from the actual competitions of functions. We agree that some improvement may result in documenting the costs outside of the data base and when DCAMIS guidance is updated, we will require the use of a form similar to that provided in the audit.
 - **Recommendation A.3.** Clarify DoD Commercial Activities Management Information System guidance requiring validation and review of DoD Commercial Activities Management Information System records, and establish controls in the DoD Commercial Activities Management Information System so that the same individual who validates a record cannot also review the same record.
 - **Partially Concur.** We agree that separate review and validate requirements should be performed by different individuals for the DoD Components with large competitive sourcing programs and staffs (i.e., Army, Air Force, Navy, USMC, DFAS, DeCA). We do not agree that DoD Components with small programs (e.g., DCMA, DoDEA) should be required to separate the review and validate requirements as long as a separate individual is responsible for maintaining the record. We believe it is unreasonable to expect these smaller programs to maintain staffs of experts in DCAMIS for the sole purpose of reviewing and validating DCAMIS records. For example, DoDEA's entire competitive sourcing staff consists of fewer than 3 individuals.

2. The following responses to Section B of the subject audit report are provided by the Director, Defense Procurement and Acquisition Policy (DPAP) and the Director, Housing and Competitive Sourcing, ODUSD(I&E).

- **Section B.** DoD Competitive Sourcing System to Track and Assess the Quality of Performance of Functions -- Recommendations: We recommend that the Director, Defense Procurement and Acquisition Policy in conjunction with the Deputy Under Secretary of Defense (Installations and Environment):
 - **Recommendation B.1.** Require that DoD Components and Military Departments use the Past Performance Information Retrieval System (PPIRS) to track the quality of performance for contractor services, clarify guidance on the \$1 million threshold and determine whether exempt contracts should be included in the system.
 - **Concur.** Although there is extensive DoD guidance on the importance of collecting past performance information on the Department's contractors and the methodology to be used, the Director, Defense Procurement and Acquisition Policy, will issue a policy memorandum reminding the acquisition workforce that the capture of past performance information must be done in an existing automated data capture system, e.g., Contractor Performance Assessment Reporting System (CPARS), whenever a procurement action meets the DoD threshold. This information is then loaded from the existing automated data capture system into PPIRS which is the single DoD automated system to retrieve that information.

In addition, the policy memo will clarify that past performance information should be captured for contracts as soon as contracts are estimated to reach the reporting thresholds (\$ value) and that if past performance information is not captured before a contract reaches the reporting threshold, then the information must be captured when it does. Further, the policy memo will direct the DoD Components to collect past performance information on previously "exempt" contracts.

As a result of FAR Case 2004-012, for which public comments have been received, DoD will issue a deviation similar to deviation 99-000002 updated for expected changes to FAR 42.1502, to clarify thresholds for DoD data capture on past performance. The DoD deviation on past performance reporting thresholds and the FAR Case implementation should take place simultaneously by the end of the calendar year.

- **Recommendation B.2.** Develop consistent data elements similar to those for service contractors to monitor the quality of MEO performance.
 - **Concur.** The Department agrees that tracking the performance of MEOs is an important management tool for evaluating agency tenders. However, the type of data elements used to track performance may differ for a private service provider and an MEO. The Office of the Director, DPAP, will work with the ODUSD(I&E) to review possible data elements and select those data elements that can best be utilized to monitor and evaluate performance of MEOs.

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- **Recommendation B.3.** Determine whether the Past Performance Information Retrieval Systems (PPIRS) or the DCAMIS is the appropriate and cost efficient systems to maintain past performance information of in-house service providers.

- **Partially Concur.** PPIRS is used to retrieve information on contractor performance that can be used in support of source selection. While this is valuable information when evaluating potential service contractors in the private sector, it may not be an effective tool for tracking and monitoring MEO performance. Normally the existing MEO that is being tracked will not be the same MEO in the follow-on public-private competition so it's past performance information is irrelevant and the use of PPIRS for tracking MEO performance may not be appropriate or valuable.

DCAMIS is a data base that captures quantifiable data such as dates (e.g., start date, solicitation date, end date) for each competition and other information such as the commercial activities, geographic locations, positions, type of acquisition, solicitation and source selection type, performance decision, competition cost data, and post-competition costs for each performance period.

The Department agrees that an automated tracking and monitoring system is important and CPARS is considered one option that will be evaluated for that effort. The Office of the Director, DPAP, will work with the ODUSD(I&E) to review available systems such as PPIRS, CPARS, DCAMIS, as well as systems that are under development by DoD Components to determine a single system for tracking and monitoring the performance of MEOs.

- **Recommendation B.4.** Require that DoD Components and Military Departments use the appropriate and most efficient system to maintain MEO past performance information.
- **Concur.** Once all the available tracking systems have been identified and evaluated, ODUSD(I&E) will issue guidance directing that DoD Components transition collection of past performance data to the system determined most appropriate for maintaining MEO past performance information.

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Contract Management prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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