

DISSERTATION FOR DOCTORATE IN MANAGEMENT

OUTSOURCING IN THE U.S. ARMY

By

Karen L. Nigara

Outsourcing in the U.S. Army

Copyright © 2004 Karen L. Nigara
All rights reserved.

www.Dissertation.com
USA • 2004

ISBN: 1-58112-220-9
www.Dissertation.com/library/1122209a.htm

I have always said that federal government workers are better workers than people in the private sector if you give them the tools and the training and the empowerment and a reasonable wage. It may not be a competitive wage with the private sector, but if it's reasonable, I think that makes a difference.

Senator George V. Voinovich, Senator, Ohio

ACKNOWLEDGEMENTS

I would like to acknowledge, first and foremost, the support provided by my friends and family, especially Paul, during the long hours spent on this project. Secondly I would like to express my sincere appreciation to the many dedicated government employees who generously gave of their time and knowledge when asked. Their insight and personal experience proved invaluable.

STATEMENT OF THE PROBLEM

“For more than two decades senior leaders have sought to reduce the size of government overhead by obtaining private contracts for installation functions that could be performed by commercial industry.”¹

The measurement of resulting savings in personnel costs from outsourcing is measurable and definable. “The Army currently has more than 220,000 civilian employees and 480,000 military personnel.”² With these large numbers there is certainly room for savings in the outsourcing process. The measurement of the resulting affects on productivity and efficiency are not as statistically clear. Outsourcing remains a hotly contested and discussed issue and has been the focus of several contentious congressional and senate hearings. Issues with federal unions and national legislative organizations have been the subjects of much discourse.

Are the workload-intensive and often disruptive A-76 studies effective in achieving savings and efficiency and is the competition that A-76 fosters a proven technique in promoting efficiency? Further, does the philosophy that all commercial work should face competition produce an achievable goal?

Is outsourcing in the U.S. Army a good business practice or a dangerous road to the promotion of inherent ineffectiveness and inability to perform core missions?

¹ U.S. Army War College, “How the Army Runs”, 1999, pp 11

² Dembeck, Chet, “OMB Lawmakers See Fault in Army Privatization Plan”, Federal Times Magazine, October 14, 2002, accessed electronically at www.federaltimes.com.

For my thesis I performed an exhaustive study of the history and current structure of the Army's A-76 process, looking specifically at several areas to include Army Depot level maintenance, Training and Professional Development, Residential Communities Initiative, and the Logistics Civil Augmentation Program. I focused primarily on Installation Operations and Services. Installation management is an expensive and complex enterprise. "Historically a large portion of the Army's annual budget supports installation management programs in the areas of operations, maintenance, repairs, and utilities costs associated with operating the virtual cities known as installations."³

To study this issue I utilized two A-76 studies at Fort Belvoir, Virginia, one study at Aberdeen Proving Grounds and one A-76 study at Carlisle Barracks, Pennsylvania as case studies. The intent was to study a variety of different cases to include those in which the government operation presided and those in which a contract was awarded to a contractor. The data is actual data garnered from public documents and in many cases interviews with those senior staff officials involved in the A-76 process.

In addition I researched the congruent A-76 programs of the other Defense Department services: the U.S. Navy, U.S. Air Force and U.S. Marines. This study is intended to serve as a comparative analysis to the U.S. Army program and provide a basis for comparison and evaluation of progress.

³ Nobles, Danny G. , LTC, "Transforming the Army Sustaining Base", U.S. Army War College Research Project, 17 October 2000, pp 4

The measure of success of the A-76 process is twofold; did the government save money and was the quality and quantity of services maintained, at a minimum, at the same level as that provided by government employees. For the Fort Belvoir case studies, the two different cases, some twenty years apart, offer interesting insight into the process. Twenty years ago drastic changes were made and over 300 government employees were either offered a civilian job, retired or sought other employment. Today, the government presided in winning the Most Efficient Organization (MEO).

But at what cost?

I studied the “before” and “after” of the FT Belvoir garrison staff and offer compelling argument that it is the process of A-76; the regulatory forcing of the government to examine its functions and related organizational structure that is in fact the causal factor in saving dollars and increasing efficiency. A-76 forces the government organization to examine and document work requirements as they relate to personnel staffing. It is this detailed examination not necessarily the final organizational structure that garners efficiency.

DEFINITION OF TERMS

SOURCE: Office of Management and Budget Circular A-76 and Supplement

1. **Outsourcing** – transfer of a function that had been performed by government employees to performance by contractor employees. Also called competitive sourcing. OMB Circular A-76 cost comparison procedures apply unless an exception, exemption or waiver applies.
2. **Privatization** – process of changing a public entity to private control and ownership. It does not include determinations of whether a service should be obtained through private or public resources when the government retains full responsibility and control over the delivery of services.
3. **Inherently governmental** – functions so intimately related to the public interest as to mandate performance by federal employees.
4. **Commercial Activity** - A function, either contracted or Government operated/managed, that provides a product or service obtainable from a private commercial source. Commercial activities are in contrast to “inherently governmental” activities.
5. **Competitive Sourcing** – The process of obtaining the best value in the provision of commercial activities; utilizing OMB Circular A-76 cost comparison process to develop a performance work statement (PWS), structure a most efficient organization (MEO) of the in-house government work force, and then compare the MEO with any qualified commercial providers based on the requirements developed in the PWS. Cost comparison studies are mandated by OMB Circular A-76 for commercial activities involving more than 10 Full Time Equivalent (FTE) positions. In this process, there is no assumption that the private sector will win the competition. This process has been referred to as “outsourcing” or “contracting out” but only “competitive sourcing” accurately describes and refers to the A-87 process.
6. **Full Time Equivalent (FTE)** – Equal to one work year for a given job. Used to standardize the amount of work expected to be accomplished by the given job and to control for work that is regularly done part-time or with overtime.
7. **Most Efficient Organization (MEO)** – The MEO refers to the Government’s in-house organization to perform a commercial activity. It may include a mix of Federal employees and contract support. It is the basis for all Government costs entered on the Cost Comparison Form. The Most Efficient Organization is the product of the Management Plan and is based on the Performance Work Statement (PWS).

8. **Performance Work Statement (PWS)** – A performance work statement is a statement of the technical, functional and performance characteristics of the work to be performed, identifies essential functions to be performed, determines performance factors, including the location of the work, the units of work, the quantity of work units, and the quality and timeliness of the work units. It serves as the scope of work and is the basis for all costs entered on the Cost Comparison Form.
9. **Commercial Source** – A commercial source is any business or other concern that is eligible for contract award in accordance with Federal Acquisition Regulations.
10. **Core Competency** – A set of skills that an organization must perform well for the organization to be successful. Core competencies define the essence of “who the organization is”.
11. **Exemption** – An exemption is a determination made in accordance with Circular A-76 and the supplement that a commercial activity may be converted to or from in-house, contract or Inter-Service Support Agreement performance, without cost comparison and may be justified by reasons other than cost.
12. **Inter-Service Support Agreement** – For purposes of competing in the A-76 cost comparison process, an Inter-Service Support Agreement (ISSA) is another Federal Agency that does not fall under the purview of DoD. This ISSA is handled like a private sector offeror in the cost comparison process and the contracting officer selects the most advantageous offer from the ISSA and the private sector offers to compete against the in-house offer.
13. **Management Plan** – The management plan is the document that outlines the changes that will result in the Government’s Most Efficient Organization (MEO) to perform a commercial activity in-house. It provides the staffing patterns and operating procedures that serve as a baseline for in-house cost estimates.
14. **Quality Assurance Surveillance** – Quality Assurance surveillance is the method by which Federal employees will supervise in-house or contract performance to ensure that the standards of the Performance Work Statement are met within the costs bid.

ACRONYMS

CA – Commercial Activity

CO – Contracting Officer

DoD – Department of Defense

DRI – Defense Reform Initiative

DRID – Defense Reform Initiative Directive

FAIR – Federal Activities Inventory

FAR – Federal Acquisition Regulation

FTE – Full Time Equivalent

FY – Fiscal Year

MEO – Most Efficient Organization

MPRI – Military Personnel Resources Incorporated

OMB – Office of Management and Budget

PWS – Performance Work Statement

QDR – Quadrennial Defense Review

RCI – Resource Consultants Incorporated

USC – United States Code

TABLE OF CONTENTS

TITLE PAGE	1
ACKNOWLEDGEMENTS	4
STATEMENT OF THE PROBLEM.....	6-8
DEFINITION OF TERMS	9-11
TABLE OF CONTENTS	13-14
LIST OF TABLES	16
OUTSOURCING IN THE U.S. ARMY	
CHAPTER 1: INTRODUCTION AND BACKGROUND.....	17-20
HISTORY.....	21-23
CHAPTER 2: OMB CIRCULAR A-76	25-37
CHAPTER 3: FEDERAL ACTIVITIES INVENTORY REFORM ACT.....	38-39
CHAPTER 4: RELEVANT STUDIES AND LITERATURE	41-55
ARMY AUDIT AGENCYREPORT	
GENERAL ACCOUNTING OFFICE REPORTS	
RAND CORPORATION REPORTS	
CENTER FOR NAVAL ANALYSIS REPORT	
CHAPTER 5: CURRENT AND POTENTIAL OUTSOURCING AREAS	56-71
DEPOT MAINTENANCE	
TRAINING AND PROFESSIONAL DEVELOPMENT	

RESIDENTIAL COMMUNITIES INITIATIVE

LOGISTICS CIVIL AUGMENTATION PROGRAM (LOGCAP)

CHAPTER 6: UNITED STATES AIR FORCE COMPETITIVE SOURCING...	72-75
CHAPTER 7: U.S. NAVY COMPETITIVE SOURCING PROGRAM.....	77-79
CHAPTER 8: U.S. MARINE CORPS COMPETITIVE SOURCING PROGRAM	...
	80-81
CHAPTER 9: INSTALLATION SUPPORT SERVICES,	
CASE STUDY # 1	83-86
CASE STUDY #2	88-94
CASE STUDY #3.....	95-98
CASE STUDY #4	99-101
REVIEW OF CASE STUDIES	102
CHAPTER 10: THE MEASUREMENT OF SAVINGS.....	104-108
CHAPTER 11: LESSONS LEARNED.....	109-113
CHAPTER 12: CONCLUSIONS	114-120
CHAPTER 13: BIBLIOGRAPHY	121-128

LIST OF TABLES

TABLE 1	
OMB CIRCULAR A-76 PROCESS.....	9
TABLE 2	
PRIVATIZING POSSIBILITIES	16
TABLE 3	
GAO REPORT 03-95.....	44
TABLE 4	
FT BELVOIR DIS MEO SAVINGS.....	52
TABLE 5	
FT BELVOIR DPCA MEO SAVINGS.....	52
TABLE 6	
FT BELVOIR INST PLANNING * RM SERVICES SAVINGS	53
TABLE 7	
FT BELVOIR DPTMS SAVINGS.....	53
TABLE 8	
CAMIS RECORDED SAVINGS.....	65

Chapter 1 Introduction and Background

The Outsourcing Institute is a non-profit research organization that analyzes outsourcing trends and outcomes and provides advice to firms and other organizations considering the outsourcing of major business functions. “According to the Outsourcing Institute, U.S. firms will spend an estimated \$110 billion for outsourced services in 1996, saving an estimated 10 to 15 percent of total function costs.”¹ “In fact, a survey of over 300 senior executives in 50 multinational companies indicates that outsourcing is a commonly used tool among such firms, with 85 percent already outsourcing all or part of at least one major business function. More than 90 percent of such firms believe that these outsourcing initiatives have been successful.”² “About 40 percent of the biggest companies in the United States have outsourced at least one major piece of their operations.”³ The reasons for outsourcing vary. In a 1997 study conducted by the Center for Naval Analysis, companies were surveyed regarding reasons for outsourcing. “Foremost in importance and frequency of responses was reduction of costs, although some respondents cited other reasons that to them were nearly as important, such as “access to highly capable capabilities, freeing resources and reducing assets.”⁴

¹ Bernasconi, Tracey W. , Attendees of the Outsourcing Institute’s 1995/96 “Outsourcing Leadership Forums Provide an Excellent Insight into the Latest Trends in Outsourcing”, The Outsourcing Institute, April 1996

² Andersen, Arthur and the Economist Intelligence Unit, *New Directions in Finance: Strategic Outsourcing*, 1995.

³ Brower, Micheal J. , “DoD Outsourcing and Privatization”, *Insights*, U.S. Army War College Publication, Sep/Nov 98

⁴ DiPrani, Anthony R. , “Rightsourcing Lessons Learned”, Center for Naval Analyses, CAB 97-29/May 1997, pg 12

In the last ten to fifteen years, the U.S. Army and the Department of Defense have followed suit in a move towards contracting out the provision of supplies and services. In some cases downsizing of the forces came first, then outsourcing. In other cases the outsourcing predicated the downsizing. Additionally the United States Army, often in concert with the United Nations has increasingly been called upon to support non-conventional peacekeeping operations. “The United Nations conducted 31 peace operations between 1990 and 1999, generally in response to failing states.”⁵ “The Department of Defense (DoD) now reportedly has 700,000 full-time and part-time contractors on its payroll”⁶

Estimating the success or failure of this outsourcing is clearly difficult. The primary functional areas that are the targets for outsourcing are logistics support and installation functions that are inherently commercial activities. Clearly there are efficiencies to be garnered in the elimination of uniformed soldiers and government civilians and the infrastructure that is required to support the installations and commercial activities associated with a large force. “DoD budget data provide incomplete visibility into the total costs associated with support operations, as the military personnel account includes both war fighters and service personnel deployed in non-combat roles. However, it is estimated that support functions such as base support, equipment maintenance, individual training and health care now account for 40 to 50 percent of total defense budget resources.”⁷

⁵ National Defense University, Strategic Assessment 1999, p. 232

⁶ Joshua A. Kurlantzick, “Warfare Inc.”, Military Officer, May 2003, p 54

⁷ Report of the Defense Science Board Task Force on Outsourcing and Privatization, Office of the Under Secretary for Acquisition and Technology. 1996. pg10a.

The Defense Science Board, composed of members appointed from the private sector, advises the secretary of Defense, the Deputy Secretary of Defense, the chairman of the Joint Chiefs of Staff, and the undersecretary of Defense (Acquisition and Technology) on scientific, technical, manufacturing and other matters of special importance to the Department of Defense. “The board estimated in 1996 that there were approximately 640,000 civilian and military workers engaged in commercial type activities.”⁸ This presents a significant target for outsourcing and potential savings in infrastructure.

Determining the best mix of government and non-government employees and achieving this mix is the Army's current dilemma and one that has a significant impact on bottom line costs as well as personnel turbulence. Balancing the ideal mix of service providers while continuing to maintain proficiency and service to customers is the goal. With the new era of a marked decrease in conventional warfare with large armies and an increase in conflicts characterized as Military Operations Other than War (MOTW), the privatization and outsourcing of a myriad of heretofore inherently military functions makes sense. A marked trend towards private military companies (PMCs) or mercenaries is apparent with the increased utilization of such PMCs as DynCorps. The Brookings Institute, a Washington D.C. based think tank, defines PMCs like DynCorp, Oregon based International Charter Inc. (ICI), and Alexandria, VA based Military Professional Resources Inc. (MPRI) as “profit-driven organizations that trade in professional services intricately linked to warfare”⁹ “Since 1994, The U.S. Defense Department has entered into 3,061 contracts with 12 U.S. based private military companies identified by ICIJ

⁸ Ibid, pp11a

⁹ Joshua Kurlantick, “Uarfare Inc.” Military Officer Magazine, May 2003: 51-58

(Center for Public Integrity), a review of government documents showed.”¹⁰ “There are about 35 firms based in the US that perform this work, including some Fortune 500 corporations. In the Persian Gulf War, only 1 in 50 people on the battlefield was a civilian contractor. During the peacekeeping effort in Bosnia in 1996, the figure was up to 1 in 10.”¹¹ There is currently much discourse on the feasibility and affordability of privatizing post-war Iraq. Contracts for construction, emergency services, banking systems, oil production and airports are all seemingly up for grabs for American companies.

¹⁰ “The Center for Public Integrity Special Report, “Making a Killing: The Business of War, Wash DC, Oct 28, 2002, pg 1

¹¹ “Privatizing Government”, accessed at www.gnp.org, 7 July 2003

HISTORY

History is replete with instances of hiring private companies and individuals to augment the Armed Forces. Roman emperors utilized massive contingents of mercenaries, and William the conqueror employed hundreds of mercenaries during his invasion of Britain. Later, Renaissance city-states used private armies to protect themselves, and Britain's forces during the American Revolutionary War contained a large percentage of Hessian mercenaries. Although many military leaders looked down on hired guns, the use of mercenaries continued through the African wars of the 1950s. "Dwight D. Eisenhower was the first president to establish a Federal contracting out policy. In 1955 he signed an historic presidential directive specifying that the federal government will not start or carry on any commercial activity to provide a service or product for its own use if such a product or service can be procured from the private enterprise."¹²

The Office of Management and Budget (OMB) Circular A-76, Performance of Commercial Activities later replaced this seemingly simple policy statement in 1966. First published in March 1966, with subsequent updates in 1979 and 1983, it prescribes the steps for determining whether recurring commercial activities should be performed in house or by contract. In addition, it also allows the government provider the opportunity to reengineer its activities to form a Most Efficient Organization (MEO) that can best compete with the private sector. The document establishes Federal policy regarding the performance of commercial activities and implements the statutory requirements of the Federal Activities. The primary focus of A-76 is to encourage competition as an

¹² Hanke, Steve H., ed. *Prospects for Privatization*. Montpelier, VT: Capital City Press, 1987, pg 65

enhancement to quality, economy and productivity. Whenever commercial sector performance of a Government operated activity is permissible, comparison of the cost of contracting and the cost of in-house performance is performed to determine who will do the work. “When more than 45 civilians are affected, Congress must be notified before a study of the function or functions can begin. The estimated completion time for a Commercial Activities study of multiple functions is 18-36 months.”¹³

Following OMB Circular A-76, the Department of Defense (DoD) responded in 1997 with the Quadrennial Defense Review (QDR) that announced that for DoD to maintain combat readiness, it must cut the support functions by reducing infrastructure. The Defense Reform Initiative (DRI) that expanded QDR to propose more streamlining and outsourcing followed the QDR. The Federal Activities Inventory Reform (FAIR) Act of 1998 further requires executive agencies to prepare a list of non-inherently governmental functions performed by federal employees and submit the list to OMB. DoD initially listed about 500,000 jobs as commercial in its FAIR inventory, noting that only about 300,000 were potentially available for competition because of restrictions on privatizing certain kinds of work such as firefighting, depot and guards. “Further DRI directives were then issued to implement the DRI. An example of a directive is DRID 20 which requires a billet inventory of all DoD manpower coded to reflect whether each position is inherently governmental, commercial but exempt from competition, or commercial and should be competed.”¹⁴

¹³ Office of Management and Budget (OMB) Information Paper, “Commercial Activities Questions & Answers, dated January 2002

¹⁴ Buchanan, Elizabeth F. , “Ethics Aspects of Outsourcing and Privatization”, 21 November 2001

The end of the Cold War created the conditions ripe for the increased use of private firms to augment the shrinking military forces. Drastic downsizing of military forces created a large pool of trained and experienced former military members looking for work. "From 1979 to 1994, DoD conducted over 2000 competitions using the A-76 process.

Government organizations and private firms each won about half of these competitions. It is estimated that annual operating costs were reduced by 31 percent, resulting in cumulative savings of 1.5 billion a year. Of these savings, the Army completed 510 competitions for an average annual savings of 470 Million." ¹⁵

"The Army's A-76 program for fiscal year 97-03 is to compete 73,000 spaces for a programmed gross savings of 3.2 Billion. During fiscal year 97-99, the Army announced studies of 35,000 spaces against the planned 39,000. Since fiscal year 97, 2534 spaces were studied with annual savings of \$47million. This is compared to the plan to compete 10,632 spaces with annual savings of 96 Million. " ¹⁶

¹⁵ DoD Reform Act, Chapter 3, accessed at www.defenselink.gov, August 2002

¹⁶ Wakefield, Jim, A-76 Studies Information Paper, Department of the Army Assistant Chief of Staff for Installation Management, 6 April 2000

CHAPTER 2

OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR A-76

OMB Circular A-76 was issued in 1966 and later revised in 1967, 1979, and 1983. The supplemental handbook was also revised in March 1996. “Circular A-76 is the document that establishes Federal policy regarding the performance of commercial activities and implements the statutory requirements of the Federal Activities Inventory Reform Act of 1998.”¹⁷ This circular promulgates the National Policy of a competitive enterprise system complete with individual freedom and initiative to compete for work as the most efficient provider of services. It is the general policy of the Government to rely on commercial sources to supply the products and services that the Government must have to perform its charter. The bottom line of achieving economy and enhancing productivity is done through competition between the commercial sector and government operated in-house organizations. In order to ensure the appropriate level of emphasis on the A-76 program, each government agency is required to designate an official at the assistant secretary or equivalent level and report annually to OMB a Commercial Activities Inventory and supporting documents.

Under A-76, agencies are required to perform exhaustive public/private cost comparisons before outsourcing functions traditionally performed by government employees. The A-76 process involves intense studies of the functions performed and the man-hours required to perform them. There are three types of A-76 studies: full cost comparison, streamlined comparison, and direct conversion. Streamlined procedures are used for

¹⁷ Office of Management and Budget, Circular A-76, August 1983, Revised 1999.