
April 22, 2004



Defense Infrastructure

Public-Private Competition for the
Base Operating Support Functions at
Picatinny Arsenal, New Jersey
(D-2004-073)

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Acronyms

AAA	Army Audit Agency
ARDEC	Armament Research Development and Engineering Center
CME	Contract Man-year Equivalent
FAR	Federal Acquisition Regulation
FTE	Full-Time Equivalent
GSA	General Services Administration
IHCE	In-House Cost Estimate
JCWS	Johnson Controls World Services
LOE	Level of Effort
MEO	Most Efficient Organization
OMB	Office of Management and Budget
PWS	Performance Work Statement



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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April 22, 2004

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE
(INSTALLATIONS AND ENVIRONMENT)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Public-Private Competition for the Base Operating Support
Functions at Picatinny Arsenal, New Jersey (Report No. D-2004-073)

We are providing this report for information and use. We performed the audit in response to allegations to the Defense Hotline. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

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 Mr. Kent E. Shaw at (703) 604-9228 (DSN 664-9228). See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

David K. Steensma
Director
Contract Management Directorate

Office of the Inspector General of the Department of Defense

Report No. D-2004-073

April 22, 2004

(Project No. D2003CH-0137)

Public-Private Competition for the Base Operating Support Functions at Picatinny Arsenal, New Jersey

Executive Summary

Who Should Read This Report and Why? DoD civilian and military personnel participating in Office of Management and Budget Circular No. A-76 cost comparisons should read this report because it discusses lessons learned in preparing the Government's most efficient organization.

Allegations. The audit was performed in response to a Defense Hotline complaint concerning the Office of Management and Budget Circular No. A-76 public-private competition to provide base operating support functions at Picatinny Arsenal, New Jersey. The complaint had several allegations. The audit focused on the two main allegations. The first allegation addressed the "mind-boggling" cost difference between the Government proposal and the contractor proposal. The second allegation stated that the National Guard was improperly being used to perform tactical vehicle maintenance, which the contractor was responsible for performing. Each of these allegations were covered by our review of the performance work statement, augmentation contract work, and information technology costs. The allegations were not substantiated. See Appendix B for a discussion of the allegations and results of this review.

In May 1998, the Department of the Army announced its decision to perform a cost comparison of the base operating support functions at Picatinny Arsenal, New Jersey. The cost comparison for base operating support functions included 262 authorized positions; civilians filled 256 of the positions. On April 17, 2002, the Armament Research, Development, and Engineering Center announced the tentative decision to award the contract to Johnson Controls World Services and after the appeal process, on September 25, 2002, the contract was awarded to that contractor.

Results. The decision to award the base operating support functions to Johnson Controls World Services was appropriate. The cost difference between the Government's proposal and the contractor's proposal was supportable because the Picatinny Arsenal A-76 study team did not effectively prepare a competitive in-house cost estimate for the most efficient organization providing base operating support functions. As a result, the total in-house cost estimate of \$94.2 million was \$32.7 million higher than the contractor proposal of \$61.5 million. The information technology area costs were overstated by \$35.5 million for the most efficient organization. The Deputy Under Secretary of Defense (Installations and Environment) should include the following issues in lessons learned/best practices for A-76 study teams responsible for developing the most efficient organization and in-house cost estimate.

- Use a multi-tasking approach across job classifications when developing staffing levels for the most efficient organization.

- Develop most efficient organizations that coincide with the requirements identified in the management study.
- Use competitive labor rates for subcontractor support.
- Use a bottom-up approach in creating the organizational structure to meet the requirements of the performance work statement.

See the finding for details on the results and recommendation.

Management Comments. The Director, Housing and Competitive Sourcing, Office of the Deputy Under Secretary of Defense (Installations and Environment) concurred with the finding and recommendation and stated the lessons learned will be posted on the “SHARE A-76!” website and linked to the final report. Additional comments are not required. See the Finding section 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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Background

The audit was performed in response to a Defense Hotline complaint concerning the Office of Management and Budget (OMB) Circular No. A-76 public-private competition to provide base operating support functions at Picatinny Arsenal, New Jersey. The complaint had several allegations. The audit focused on the two main allegations. The complaint raised concern about the “mind-boggling” cost difference between the Government proposal and the contractor proposal. The complaint also alleged that the National Guard was improperly used to perform tactical vehicle maintenance, which the contractor was responsible for performing. See Appendix B for a discussion of the allegations.

Public-Private Competition for the Base Operating Support Functions. In May 1998, the Department of the Army announced the decision to perform an OMB Circular No. A-76 cost comparison of the base operating support functions at Picatinny Arsenal, New Jersey. The cost comparison is a public-private competition process required by the OMB Circular No. A-76 to compare the cost of Government performance with the cost of contract performance. The cost comparison for base operating support functions included 262 authorized positions; civilians filled 256 of the positions.

On July 27, 2001, the Armament Research, Development, and Engineering Center (ARDEC) issued a solicitation requesting private sector proposals for performance of the base operating support functions for a 5-year period. The performance work statement (PWS) was segmented into five functional areas or business units:

- information technology,
- public works,
- logistics,
- environmental and safety, and
- audiovisual.

Three offers were received, all of which were determined to be in the competitive range: Johnson Controls World Services (JCWS); Del-Jen, Incorporated; and Picatinny Technical Services. After a formal selection process, JCWS was selected as the best-value offer. The contracting officer then compared the total cost of contract performance with the total cost of in-house performance to determine a tentative cost comparison decision.

On April 17, 2002, ARDEC announced the tentative decision to award the contract to JCWS. The adjusted total cost to contract with JCWS for the services was \$67,195,033, approximately \$27 million less than the Government’s adjusted offer, \$94,278,202, over the 5-year period. Ten administrative appeals were received from affected employees and the unions. On June 17, 2002, the Administrative Appeals Authority denied the appeals either in their entirety or partially. Of the few issues that were substantiated, none resulted in changes to either the cost estimate or the tentative decision. On September 25, 2002, ARDEC awarded the contract to JCWS.

OMB Circular No. A-76 Guidance. ARDEC performed the cost comparison process for the base operating support functions in accordance with OMB Circular No. A-76, “Performance of Commercial Activities,” August 4, 1983 (Revised)¹. OMB Circular No. A-76 and OMB Circular No. A-76 Revised Supplemental Handbook, March 1996 (Revised), establish Federal policy regarding the performance of recurring commercial activities and set forth the principles and procedures for implementing OMB Circular No. A-76. The principles and procedures include the instructions for calculating the financial advantage to the Government of acquiring a service through in-house, contract, or interservice support agreement resources.

DoD Guidance. DoD Directive 4100.15, “Commercial Activities Program,” March 10, 1989, and DoD Instruction 4100.33, “Commercial Activities Program Procedures,” September 9, 1985, implement OMB Circular No. A-76. On April 3, 2000, the Under Secretary of Defense for Acquisition and Technology, (now known as the Under Secretary of Defense for Acquisition, Technology, and Logistics) issued interim guidance to ensure DoD agencies used a consistent approach when performing cost comparisons². On March 14, 2001, the Deputy Under Secretary of Defense (Installations) [now known as the Deputy Under Secretary of Defense (Installations and Environment)], issued DoD 4100.XX-M, “A-76 Costing Manual,” as interim guidance.

OMB Circular No. A-76 Study Process. The August 4, 1983 (Revised), OMB Circular No. A-76 process, as described in the Revised Supplemental Handbook and on the Office of the Secretary of Defense “SHARE A-76” Web site, consists of several phases. During the first phase, a PWS and quality assurance plan are developed. After a PWS is prepared, the agency issues the requests for proposal or invitations for bid. A management study is conducted that determines the Government’s most efficient organization. Once the Government’s most efficient organization is determined, an in-house cost estimate (IHCE) is prepared. After private sector offers are evaluated and a single private sector offer is determined, the private sector cost proposal is compared to the IHCE and the lowest cost provider is selected. To preclude the Government from converting to a new provider for marginal estimated savings, total estimated savings must exceed a conversion cost differential. The conversion cost differential is equal to the lesser of 10 percent of the IHCE direct personnel costs or \$10 million over the performance period.

The OMB Circular No. A-76 administrative appeal process begins at the conclusion of the cost comparison. Federal employees (or their representatives) and contractors who submitted offers affected by the decision may appeal. An appeal should be submitted within 20 days of supporting documentation being made public. The Administrative Appeal Authority should make a final decision within 30 days of receiving the appeal. A private-sector offeror may then file a protest in accordance with the Federal Acquisition Regulation (FAR) Part 33, “Protests, Disputes, and Appeals,” if the offeror feels that the agency conducting the cost comparison did not comply with the applicable procedures.

¹ OMB made revisions to Circular A-76 and reissued the Circular on May 29, 2003.

² DoD rescinded this guidance on March 29, 2004.

Objectives

Our overall audit objective was to review selected portions of the OMB Circular No. A-76 process and the decision to award the base operating support functions to a private contractor. Specifically, we reviewed the PWS, augmentation contract work, and information technology costs. We also assessed related performance risks. See Appendix A for a discussion of the scope and methodology and prior coverage.

Competitiveness of the Most Efficient Organization

The Picatinny Arsenal A-76 study team did not effectively prepare a competitive IHCE for the most efficient organization providing base operating support functions. This occurred because the A-76 study team:

- overstated full-time equivalents (FTE) and contract man-year equivalents (CME) in the IHCE for information technology support by rounding up partial FTE and CME positions and adding additional staff,
- used non-competitive General Service Administration (GSA) schedule contractor rates for information technology support, and
- proposed additional staff above what the contractor proposed because the study team relied on employee surveys and subjective management decisions which seemed to place too much emphasis on existing staffing levels.

As a result, the total IHCE of \$94.2 million was \$32.7 million³ higher than the contractor proposal of \$61.5 million. The information technology area costs were overstated by \$35.5 million for the most efficient organization.

Information Technology Area Most Efficient Organization

Development of the Most Efficient Organization. To develop the most efficient organization (MEO), the Picatinny A-76 study team and its contractor, Pricewaterhouse Coopers, conducted employee workshops. During workshops, employees were asked to fill out surveys on tasks that they performed during the year, the number of times they performed those tasks, and the time devoted to each task. The information received from the surveys was used by the study team to document the existing organization and develop a task summary that identified the required level of effort (LOE) for development of the MEO.

The study team stated that the information technology area of the MEO contained the largest required effort and comprised 59 percent of the cost for the MEO. We focused our analysis on the information technology area of the MEO, because the information technology area comprised the majority of the costs of the MEO and most of the differences between the contractor proposal and the MEO stemmed from differences in the information technology area.

³ The \$5.7 million difference between the \$32.7 million cost difference stated here and the \$27 million stated on page 1, is attributable to the conversion cost differential required by the OMB Circular No. A-76.

Overstatement of Information Technology Costs for the MEO. Table 1 summarizes the \$35.5 million cost difference between the MEO and the contractor proposal.

Table 1. MEO Information Technology Cost Overstatement	
<u>Item</u>	<u>Amount (in millions)</u>
Overstatement of In-House Cost Estimate FTEs and CMEs	\$ 8.4
Use of GSA Schedule Contractor Rates for Information Technology Support	8.8
Proposed Additional Staff above Requirements or Contractor Levels	<u>18.3</u>
Total	\$35.5

Overstatement of In-House Cost Estimate

Overstatement of FTEs and CMEs. The study team did not effectively match the staffing determined from its LOE analysis with the staffing proposed in the MEO. As a result, the study team overstated the required staffing for the information technology area by 16.6 positions (10.2 FTEs and 6.4 CMEs), or about 18 percent. We calculated that this overstatement of the required staff in the MEO accounted for \$8.4 million of the difference between the MEO and the contractor proposal.

The study team summarized its workload analysis by position and grade to determine the number of FTE positions needed for the MEO. Likewise, the same analysis was used to derive the number of subcontractors needed. However, as shown by the examples in Table 2 and Table 3, the number of positions identified in the MEO often exceeded the LOE determinations.

Table 2. Examples of the Most Efficient Organization Positions Exceeding the Level of Effort Determinations

<u>Position Series and Grade</u>	<u>Level of Effort</u>	<u>Most Efficient Organization</u>	<u>FTE Overstatement</u>
GS-0301-11	0.500	1	0.500
0318-05	0.040	1	0.960
0326-06*	0.069	0	(0.069)
0332-07*	0.297	0	(0.297)
0332-08*	0.023	1	0.978
0334-11	2.111	2	(0.111)
0334-12	11.468	12	0.532
0334-13	1.957	5	3.043
0391-11	1.600	2	0.400
0855-14	0.000	1	1.000
1550-13	3.500	5	1.500
1550-14	<u>0.000</u>	<u>1</u>	<u>1.000</u>
Total	21.564	31	9.436

*The one 332-08 position was added to fulfill LOE requirements for the 326-06, 332-07, and 332-08 positions.

The study team reviewed the examples we identified in Table 2 and provided reasons for adjusting the staffing above the LOE determinations. A member of the study team told us that the study team decided to add supervisors to the MEO even though they were not identified in the LOE. They also made adjustments to handle administrative tasks that the study team believed were necessary to perform, even though the tasks were not identified as a requirement in the PWS.

	<u>Level of Effort</u>	<u>Most Efficient Organization</u>	<u>CME Overstatement</u>
Subcontractor	39.788	46.2*	6.412

* Average of CMEs proposed for total contract term

The study team told us that they increased the number of subcontractors over their LOE determination because they relied on manager input instead of the LOE determinations. They also believed that the MEO would win the competition and did not want to short change the information technology area because of its importance.

The excess of FTEs and CMEs in the MEO were due primarily to:

- adding FTEs and CMEs in the MEO above the LOE determined by the study team, and
- rounding fractional LOEs upward to whole numbers.

Because the LOE determinations were made as fractional FTEs and CMEs and the MEO is staffed in whole numbers, the study team generally rounded the number of personnel for the MEO to the next whole number or higher. The A-76 study team should have used overtime, job pooling, and reassignment of duties to other personnel with lighter workloads to staff the information technology area to minimize the number of personnel needed to perform the required work.

Cost of Overstating Staffing Levels. Table 4 shows the cumulative impact of the decision to include staffing levels that exceeded of the management study suggested LOE.

	<u>LOE</u>	<u>MEO</u>	Difference		
			<u>FTE/ CME</u>	<u>Percent</u>	<u>Amount (millions)</u>
Government (FTEs)	52.5	62.7	10.2	19.4	\$4.9*
Subcontractor (CMEs)	<u>39.8</u>	<u>46.2</u>	<u>6.4</u>	<u>16.1</u>	<u>3.5</u>
Total	92.3	108.9	16.6	18.0	\$8.4

*Includes 12-percent overhead and 0.7-percent insurance required by the OMB Circular No. A-76 guidance.

The cost for the information technology area of the IHCE was based on 108.9 FTEs and CMEs being required to perform that function. This was 16.6 more FTEs and CMEs than was suggested by the study team’s LOE analysis computation of 92.3 FTEs and CMEs. This increased the MEO staffing by 18 percent, which equated to an \$8.4 million increase to the IHCE. The decision to include MEO FTEs and CMEs in excess of the LOE determination created a less competitive MEO. As a best practice in preparing the MEO, Government teams involved in establishing the MEO should make decisions based on the information identified during the management study.

Use of GSA Schedule Contractor Rates

The IHCE included about \$30 million in subcontractor costs in support of the MEO. The information technology area accounted for 85 percent of the subcontractors in the MEO. The study team elected to base its costs for subcontractor support on GSA schedule pricing. GSA schedule contracts are best suited for small acquisitions. Additionally, GSA schedule contracts are not competed. Therefore, using prices from GSA contracts in the MEO was not a sound decision. We calculated that the study team’s reliance on GSA schedule contract rates rather than prices from competitively awarded service contracts accounted for about \$8.8 million of the difference between the MEO and the winning contractor proposal.

GSA Schedules. Under the GSA Schedules (Multiple Award Schedules) Program, GSA establishes long-term Government-wide contracts with

commercial firms to provide ordering offices with access to commercial services and products that can be ordered directly from GSA Schedule contractors or through the GSA Advantage! online shopping and ordering system. GSA Schedules offer the potential benefits of shorter lead-times, lower administrative costs, and reduced inventories, including significant opportunities for agencies to meet small business goals, while promoting compliance with various environmental and socioeconomic laws and regulations.

When orders are placed against a GSA Multiple Award Schedule contract, using the procedures under FAR 8.4, "Federal Supply Schedules," they are considered to be issued using full-and-open competition (see FAR 6.102(d)(3)). Ordering offices need not seek further competition, synopsise the requirement, make a separate determination of fair and reasonable pricing, or consider small business programs. By placing an order against a GSA Schedule contract using the procedures in this section, the ordering office has concluded that the order represents the best value and results in the lowest overall cost alternative (considering price, special features, administrative costs, among other items) to meet the needs of the Government.

Despite the advantages of using GSA contracts in certain circumstances, the General Accounting Office has noted that because the GSA schedule contracts are not competed, agencies need to perform additional analysis to ensure they are receiving the best price. General Accounting Office Report 03-433, "Federal Procurement Spending and Workforce Trends," April 30, 2003, states:

GSA does not require contractors to compete against one another to receive schedule contracts. Rather, GSA negotiates contracts, including pricing and other terms, with all contractors who meet the qualification standards for the schedule. Generally, contracting officers may place orders for products against the schedule without having to solicit competitive quotes or determine fair and reasonable prices, thereby allowing them to fulfill their agencies' needs quickly and easily. However, for purchases above a certain threshold, it is advantageous for the ordering office to seek a price reduction and consider additional contractors. Further, for service contracts that are valued at more than \$2,500 and require a statement of work, GSA established special ordering procedures under the schedules program that require agency personnel to solicit quotes from at least three contractors and evaluate the mix and price of the labor categories being offered, among other things.

Development of the MEO Subcontractor Rates. To develop the subcontractor rates for the MEO, the study team asked GSA to do a comparison of all local GSA contractor rates for the positions that existed in the information technology area at that time. The rates came from GSA schedules from Synetics, Incorporated; Business Plus Corporation; MTI Technology Corporation; Signal Corporation; Artech Information Systems; and Decision Systems Technologies, Incorporated. GSA picked three of the companies to offer three competitive rates for each of the potential subcontractor positions to be included in the MEO and developed an average. The study team then reduced those rates by 10 percent to

reflect what they believed would be potential cost savings to the Government by going from a combination of multiple subcontractors to a single subcontractor.

Comparison of Subcontractor Rates Used in the MEO with Subcontractor Rates Derived from Competition. Even though GSA developed its proposed rates from multiple sources, we do not believe that derived rates are reflective of the rates that the command could have obtained from a competitive award. In hindsight, the study team would have been better suited by developing its cost estimates from recent competitive awards made by other Government agencies in the Picatinny Arsenal geographical area. To estimate the rate differences between the subcontractor rates proposed in the MEO and rates from a competitive solicitation, we compared the average subcontractor hourly rates used in the MEO with the hourly rates proposed by JCWS (see Table 5) and found that the GSA rates were about 54.8 percent higher than the JCWS hourly rates.

Table 5. Difference Between MEO Subcontractor Rates and JCWS Rates			
<u>MEO Average Hourly Rate</u>	<u>JCWS Average Hourly Rate</u>	<u>Rate Difference</u>	<u>Percent Difference Over JCWS Rates</u>
4	4	\$21.30	54.8

We then multiplied the hourly rate difference of \$21.30 times the number of contractor hours expected to be worked over the term of the solicitation. With this calculation, we determined that the use of GSA rates rather than rates derived from competition accounted for about \$8.8 million of the difference between the MEO and the contractor proposal. As a best practice, study teams should avoid using GSA schedule prices for pricing of subcontractor services.

Excess Staff Proposed

The MEO for the information technology area proposed 108.9 FTEs and CMEs. The successful contractor proposed ⁴ CMEs. This is more than a ⁴-to-one ratio of staff for the given PWS. We determined that 16.6 of the 108.9 were attributable to rounding up the LOE required. The remaining difference between the MEO and contractor proposal was still ⁴ FTEs and CMEs (108.9 minus 16.6 minus ⁴). We attribute the excessive staffing to the study team basing the LOE on current duties instead of the PWS requirements. We calculated that the ⁴ FTEs and CMEs accounted for the remaining \$18.3 million difference between the MEO proposal and the winning proposal from the contractor. The study team started with an “as was” organization developed from employee surveys, and created the MEO from that organization. When determining the appropriate LOE to respond to the PWS

⁴ Contractor data omitted.

during the management study, Government teams should rely on objective information involving multiple sources of input as opposed to potentially affected employee surveys only.

The study team tailored existing staff into the MEO, instead of starting with nothing and building an MEO to meet the PWS requirements. As a best practice, Government teams, when developing the MEO, should take a bottom-up requirements approach in creating the organizational structure to meet the requirements of the PWS, as opposed to a paring down of the existing organization.

Conclusion

The Picatinny A-76 study team effort resulted in an MEO that was not competitive with contractor proposals, particularly in the information technology area. The IHCE of \$94,250,373 exceeded the contractor proposal by \$32,705,252. The information technology area costs were overstated by \$35.5 million for the MEO. The reasons for this difference included an overstatement of FTEs and CMEs in the IHCE, use of GSA schedules to determine MEO subcontractor costs, and proposing staffing above the contractor level. We did not find any reason that the award of the current contract with JCWS should be overturned, but believe that mistakes identified here could serve as “lessons learned” for other OMB Circular No. A-76 study teams as required by OMB Circular No. A-76, “Performance of Commercial Activities,” May 29, 2003.

Recommendation and Management Comments

We recommend that the Deputy Under Secretary of Defense (Installations and Environment) include the following issues in lessons learned/best practices for A-76 study teams responsible for developing the most efficient organization and in-house cost estimate:

1. Take a multi-tasking approach across job classifications as opposed to rounding up partial full-time equivalents within job classifications when developing staffing levels for the most efficient organization.

2. Develop most efficient organizations that coincide with the requirements identified in the management study.

3. Use competitive labor rates verses non-competitive General Services Administration schedules for subcontractor support.

4. Use a bottom-up approach versus paring down the current organization in creating the organizational structure to meet the requirements of the performance work statement.

Management Comments. The Director, Housing and Competitive Sourcing concurred and stated that the lessons learned would be posted on the “SHARE A-76!” website and linked to the final audit report.

Appendix A. Scope and Methodology

We reviewed pertinent documents including the PWS, the management plan, contract files for the winning contractor, selected portions of the solicitation, working papers and reports developed by the Army Audit Agency (AAA) pertaining to its review of the PWS and the management plan, and files from the Administrative Appeals Board. We interviewed the party that made the allegation, an auditor with the AAA that reviewed the PWS and the management plan, the contracting officer and contractor representatives, and members of the study team. We analyzed the contractor proposal and the management plan to identify the causes for the difference between the contractor's proposal and the MEO.

We performed this audit from July 2003 through March 2004 in accordance with generally accepted government auditing standards. We did not review the management control program because the audit scope was limited to the allegations made to the Defense Hotline.

Use of Computer-Processed Data. DoD agencies are required to use the win.COMPARE² software package when performing OMB Circular No. A-76 cost comparison studies. We relied on cost estimates derived from the win.COMPARE² software when performing our review. Office of the Inspector General DoD Report No. D-2001-127, "Data Reliability Assessment Review of win.COMPARE² Software," May 23, 2001, concluded that the win.COMPARE² software was sufficiently reliable, accurate, and in accordance with the OMB Circular No. A-76 Revised Supplementary Handbook and the DoD A-76 Costing Manual rules. Furthermore, AAA, which served as the independent review officer for the study, reviewed the input data. Nothing came to our attention during the review to cause us to question the reliability of the software.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Infrastructure Management high-risk area.

Prior Coverage

During the last 5 years, the AAA issued three reports summarizing its work as the independent review officer for the Picatinny Arsenal OMB Circular No. A-76 study.

Army

AAA Audit Report A-2002-0321-IMT, "U.S. Army Audit Agency Review of the Updated Cost Comparison Form for the Garrison Support Services Commercial Activities Study, Picatinny Arsenal, New Jersey," Project Code A-2002-IMT-0246.012, April 16, 2002

AAA Audit Report AA 02-124, "U.S. Army Audit Agency's Review of the Government Management Study and Cost Comparison Form for Garrison Support Services Commercial Activities Study," Assignment Code T2-103P, January 8, 2002

AAA Audit Report AA 00-109, "U.S. Army Audit Agency Review of the Draft Performance Work Statement for the Installation Operation Services Commercial Activities Study Dated 17 August 1999," Assignment Code T0-102M, December 14, 1999

Appendix B. Hotline Allegations

Allegation No. 1. Concern was raised about the “mind-boggling” cost difference between the Government’s proposal and the contractor’s proposal.

Audit Results. The allegation was not substantiated. The cost difference was supportable because the Picatinny Arsenal A-76 study team did not effectively prepare a competitive IHCE for the MEO providing base operating support functions. As a result, the total in-house cost estimate of \$94.2 million was \$32.7 million higher than the contractor proposal of \$61.5 million. The information technology area costs were overstated by \$35.5 million for the MEO. This is covered in more detail in the finding.

Allegation No. 2. Tactical vehicle maintenance was included in the Picatinny A-76 PWS, the in-house proposal was calculated based on this work being performed by the in-house contractor workforce in the event of an in-house win. However, JCWS, the winning bidder, was not performing this work. Instead, the National Guard was performing the required work.

Audit Results. The allegation was not substantiated. During July 2003, we met with the complainant and requested additional details on this allegation and other allegations. We were not provided with any additional support for the allegations. The complainant could not cite specific examples of such abuse or any details that would permit a more comprehensive review of this allegation.

Tactical vehicle maintenance was a requirement of section 5.4.3 of the PWS and technical exhibits showed an estimated 50 tactical vehicle maintenance actions were expected each year. The Chief of the Contract Management Team for Picatinny told us that the award to JWCS resulted in one employee assigned to do the tactical vehicle maintenance. This was the same staffing level for tactical vehicle maintenance that Picatinny had before the solicitation. The Chief of the Contract Management Team provided us with a listing of tactical vehicle maintenance actions that JCWS had performed since the contract award. As of July 30, 2003, JCWS had already performed 91 tactical vehicle maintenance repairs. Based on these statistics, it was clear that JCWS had already significantly exceeded the expectations (50 required versus 91 accomplished) stated in the PWS, especially considering that the performance period had only started in December 2002.

We also requested the Chief of the Contract Management Team and the Director of Internal Review provide us with information on any other tactical vehicle maintenance performed by others, other than JCWS, and information on any memorandums of agreement, interservice support agreements, or contracts for tactical vehicle maintenance support. There were no memorandums of agreement, interservice support agreements, or contracts for tactical vehicle maintenance, but there were four actions for work at Anniston Army Depot, Anniston, Alabama. The cost of the work at the Anniston Depot totaled \$17,200. The Chief of the Contract Management Team told us that the work performed by Anniston Army Depot was for third echelon level maintenance. Third echelon level maintenance is defined as depot level maintenance requiring highly skilled

personnel with unique knowledge of specific equipment. He cited the replacement of a power pack in a Bradley M2A2 as an example of a third echelon repair. The Chief of the Contract Management Team told us that JCWS was only responsible for second echelon level maintenance. Second echelon maintenance includes minor repairs such as changing track pads to rebuilding transmissions and major engine overhauls.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Deputy Under Secretary of Defense (Installations and Environment)
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army
Commander, Picatinny Arsenal

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

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Non-Defense Federal Organization

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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 Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member (cont'd)

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

April 1, 2004

MEMORANDUM FOR PROGRAM DIRECTOR, CONTRACT MANAGEMENT
DIRECTORATE

SUBJECT: Report on the Public-Private Competition for Base Operating Support
Functions at Picatinny Arsenal, New Jersey (Project No. D2003CH-0137)

This memorandum responds to your request for comments on the subject report. We have reviewed the subject audit report and concur with the report's recommendation to the Deputy Under Secretary of Defense (Installations and Environment) (DUSD(I&E)). The lessons learned stated in this report's recommendation will be posted on the SHARE A-76! website and linked to the final DoD(IG) audit.

The point of contact for this report is Mrs. Annie L. Andrews (703) 602-2608.

A handwritten signature in black ink that reads "J K Sikes".

Joseph K. Sikes
Director, Housing and Competitive
Sourcing

cc:
ASA(I&E)



Team Members

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

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